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Article

Developmental Logic and Resurgence of New State Capitalism in India

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Abstract

This paper explores how state capitalism is related to market capitalism in the global South, thereby challenging the dichotomous view frequently adopted in 'new' state capitalism literature. We analyze the case of India, where the state has actively mobilized state-own entities to meet new economic challenges. Drawing upon an in-depth analysis of the official documents, this article makes two central claims. First, India's new state capitalism is driven primarily by *developmental logic*. The government has mobilized state-owned entities to conduct specific development projects that had progressed slowly when the government relied on the private sector. Second, India's new state capitalism has been expanding amid not only liberalized but also *liberalizing* economic regimes. We argue this by analyzing the role that state-owned entities play in improving the business environment, sustaining fiscal health, and attracting private companies and talent. As such, this article suggests that emerging debates in new state capitalism literature should pay more attention to the critical role that state-own entities play in the development process and facilitating the market economy. It also suggests that the developmental state model is conceptually relevant to explaining the revival of state-centered developmentalism in the global South and India.

Keywords

State capitalism, Developmental logic, Developmental state, State with market, Global South, India

Introduction

Since the 2000s, state-owned entities have had a more pronounced presence in the global economy. This phenomenon is interpreted as the return of 'new' state capitalism (Alami & Dixon, 2020a; Bremmer, 2010; The Economist, 2012 ; Kurlantzick, 2016). Much emphasis has been placed on the globalization of state-owned entities from authoritarian developing economies,

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most notably from China. This paper aims to analyze the resurgence of state capitalism in a democratic developing country in the global South and contributes to emerging debates in 'new' state capitalism literature. This paper demonstrates that state capitalism has been expanding in India under the Narendra Modi administration (2014-2019). To illustrate, the active mobilization of the state-own entities to implement strategic projects has begun in India to meet new economic challenges. Consequently, under the Modi administration's developmental strategy, state-owned entities' assets increased 8% on annual average from 29 trillion rupees in 2014 to 43 trillion rupees in 2019 (Government of India, 2015, 2020c, also see figure 3). In addition, state-owned entities have increased in size and variety during this period as the government began to mobilize them for developmental purposes. These facts suggest that state capitalism is resurging in a Global South country that started to promote a market economy through economic liberalization initiated in the early 1990s.

This development raises three inter-related questions. First, what explains the resurgence of state capitalism in India? Second, what are the key features of new state capitalism in India, and how is it different from the 'old' state capitalism. Third, and more importantly, does the rise of state capitalism suggest that India is marginalizing its commitment to the market economy that flourished after the economic liberalization era and moving towards a more statist approach to managing its economy? Attempting to answer these questions systematically, this paper builds on the developmental state model, which stresses two fundamental logics: First, *inspired by the developmental logic, the government may enhance the role of state-own enterprises to meet developmental challenges*. Second, *the state intervention through state-own enterprise should not be seen as against the market capitalism but rather as an instrument to facilitate it*.

As such, this paper makes two core claims regarding the resurgence of state capitalism in India that are significant to understanding the return of state in many developing economies in the global South. The first is that India's new state capitalism is driven by the *developmental logic*. This paper illustrates that the government has mobilized state-owned entities to conduct specific development projects that had progressed slowly when the government relied on the private sector. Indeed, a closer examination of official data reveals that the Modi government, inspired by developmental thinking, has mobilized state-own entities for 'developmental purposes.' When the Modi government came into power in 2014, the government was concerned with the slowing economic growth rate following the 2008 global financial crisis. A lack of infrastructure investment was highlighted as a key factor in the economic slowdown. Against that backdrop, the Modi government, the first majority government in 30 years, regarded the previous government as the 'soft state' unable to deal with developmental challenges. The new administration's economic team argued that infrastructure provision, which is necessary for attracting investors (including private investments), can't be left to market forces, therefore becoming the state's responsibility. There were two means used to achieve infrastructure investment goals, namely capital expenditure through state budget and through state-own enterprises. state-own enterprises' participation was deemed important as the government needed additional financing sources due to a tight fiscal situation.

In this context, the Modi government came to utilize state-own enterprises as 'developmental means'. The government provided substantial financial support to state entities in order to stimulate India's development strategy. As this paper demonstrates, the government's capital injections in state entities drastically increased. In addition, while paid up-capital in existing state developmental financier increased, the government also provided funds for the newly created state-own investment funds. Modi's new state capitalism focused firmly on infrastructure provision, where private sector investment remained stagnant following the 2008 global financial crisis. To illustrate, the public sector's infrastructure investment almost doubled during the Modi government compared to the previous government. The government mobilized existing state entities and even created new state entities to address development challenges in the infrastructure sector. Hence, it can be said that India's new state capitalism is a direct consequence of the policymakers' developmental mindset.

Our second core argument is that India's new state capitalism has been expanding amid not only liberalised but also *liberalising* economic regimes. The paper finds that developmental state capitalism's strengthening under the Modi administration is closely linked to the forces of market logic. We show this by conceptualizing the key characteristics of the Modi government's economic development strategy that includes both liberal economic and state capitalist aspects. These characteristics are as follows: (i) enhancing the business environment, supported by state-led infrastructure development; (ii) sustaining fiscal health during strong developmentalism by mobilizing off-budget resources from state-owned entities; (iii) invigorating private investment by offering business opportunities linked to state-owned entities; and (iv) using private management expertise and knowledge to run state-owned entities.

In doing so, this article contributes to emerging debates in new state capitalism literature in several ways. First, this study shows that the revival of state capitalism in India is a direct consequence of the developmental logic. Hence, it joins a group of emerging literature (Dixon, 2020; Kim, 2020, 2021a; Nem Singh & Chen, 2018), which suggests that new state capitalism literature should look at state-own entities beyond the 'profit generating' aspect and pay more attention to the critical role that state entities play in the 'development process.' Second, this study problematizes the dichotomous view (market vs. state) frequently adopted by the existing literature on 'new' state capitalism (Alami & Dixon, 2020b; Kim, 2021b; Peck, 2021; Zhang & Lan, 2022), by illustrating that new state capitalism in India is mobilized to supplement, rather than replace, the liberalized economic system. As such, it calls for adopting a 'market with state' approach, promoted by the classic developmental state literature (Amsden, 1989; Johnson, 1982; Wade, 1990, 2014) to understand the revival of state capitalism in developing economies. Above all, this study aims to contribute literature that explores developmental states beyond East Asia and concludes that the concept' developmental state' is equally relevant to explaining the theory and practice of building developmental states in the global South (Nem Singh & Ovadia, 2018).

Yet, some clarifications should be made about what we mean by the resurgence of new state capitalism in India and how it differs from state capitalism in China and Russia, which are classic examples of this model. India's state capitalism is distinct from that of China and Russia in terms of ideology. Russia promotes state capitalism based on ideologies that compete with the Western idea of a market economy. China also promotes state capitalism under the slogan of 'socialism with Chinese characteristics' as an alternative development model to Western neoliberalism. However, India's resurgence of state capitalism under the Modi administration is not based on ideology or challenging Western ideas, but on pragmatism. While India remains strongly committed to neoliberal principles, its development needs compel it to utilize SOEs to implement its development agenda. In this context, India's state capitalism is much closer to the South Korean and Taiwanese economic development models, where SOEs, alongside the private sector, were used for developmental purposes rather than to challenge any particular ideology. It is also important to highlight that when we refer to a resurgence of state capitalism in India, we are not suggesting that state capitalism has become the nation's overall development model. Rather, we are highlighting an emerging trend within Indian capitalism as part of its developmental process.

This article draws on an in-depth analysis of official documents and policy reports from the government of India, including data from the Ministry of Finance and Ministry of Heavy Industry and Public Enterprises. The World Bank's Ease of Doing Business (EoDB) index and the Fraser Institute's Economic Freedom index were utilized to demonstrate the Indian economy's liberalization status. The author has also conducted several semi-structured interviews in India with government officials, policymakers, and scholars during fieldwork research between 2017 to 2019.

This paper is organized as follows. It first critically reviews the existing explanations for the return of the state capitalism and then introduces the analytical framework of this study, that is the developmental state model. Thereafter, it summarizes the evolution of state capitalism in India until the mid-2010s and highlights the shift of the economic regime's focus from statism to liberalization over time. This section emphasizes the sizable state-owned sectors have survived, though their goals have evolved to reflect the economic regime of the time. The following section discusses the political and economic background of the resurgence of state capitalism and argues that state capitalism acts as an important tool for governments dealing with the challenges that appeared during economic liberalization. The following section explores how state-owned entities are linked to the economic liberalization project as they are influenced by governments' efforts to enhance the business environment, sustain fiscal health, and embrace private firms and actors. The final section concludes the paper.

Literature Review: Existing Explanations for the Return of State Capitalism and Their Critics

Since the 2000s, state-owned entities have had a more pronounced presence in the global economy (Alami & Dixon, 2020a). This phenomenon, which is referred to as the return of state capitalism, has attracted academic attention, particularly in terms of how its 'new' characteristics reflect state-owned entities' adaptation to and success in the business world. Much emphasis has been placed on the globalization of state-owned entities from developing economies, most notably from China. On one hand, literature has viewed the profit-seeking state-owned entities' internationalization strategies with curiosity as these entities previously depended on their dominant positions and government-created rents in the domestic market (Babic et al., 2020; Cuervo-Cazurra, 2018). On the other hand, literature has often depicted state capitalism as tools deployed by developing economies to expand their presence in or even challenge and disrupt the West-led international order (Bremmer, 2010; Kowalski & Perepechay, 2015; Kurlantzick, 2016).

In comparison, there has been little discussion of the 'old' developmental role during 'new' state capitalism. 'New' state capitalism's external consequences have been treated as a major aspect, while there has been a muted interest in internal characters. Even the study of 'new developmentalism,' which analyses the strengthening role of states in developing countries' economic and social policies over recent decades, has taken little notice of the domestic role of state-owned entities (Ban, 2013; Bresser-Pereira, 2011). In this literature, state-owned entities have often been regarded as relics of the past with a limited position or whose presence is shrinking, though not as quickly as pro-market reformers would like. However, the mobilization of state-owned entities is now an important feature of national development strategies, therefore requiring a more comprehensive understanding (Nem Singh & Chen, 2018, p. 1079; OECD, 2015). This paper contributes to existing literature by exploring the under-studied issue of developmental state capitalism.

Another 'new' feature that has gained attention in literature on state capitalism is the entities co-owned by the state and the private sector (Bruton et al., 2015; Chatterjee, 2017; Musacchio & Lazzarini, 2014; OECD, 2016). Partially state-owned entities, which are the product of partial privatization, partial nationalization, or public-private joint establishment, have become major actors in the business world. Literature has portrayed these entities as being economically efficient and financially stable, at least compared to fully state-owned entities, because they are exposed to private sector management, incentives, and monitoring, though they are also sometimes vulnerable to 'political' interference. Other analyses have viewed these entities as a politically-compromised organizational form in a context where support to reform the state-owned sector clashes with opposition to radical privatization or support to dismantle private sector dominance in strategic sectors clashes with opposition to draconian statist intervention.

Partial state ownership is just one aspect of how state capitalism is linked to the market economy. The economic contexts in which 'old' state capitalism and 'new' state capitalism have emerged are different. Since the 1980s, numerous developing countries have embraced market liberalization in diverse policy areas; as a result, governments have weakened direct participation in and control over economic production and instead decided to focus on building market institutions. In this context, state-owned entities are no longer simply policy tools that governments can utilize at discretion, instead becoming organizations strongly influenced by market forces. Consequently, rather than some developing countries shifting away from the market opening towards dirigisme, they tend to display parallel, or even integrated, pursuance of economic liberalization and state capitalism. This paper contributes to existing literature by exploring various characteristics of state capitalism, in which governments mobilize state-owned entities while maintaining liberalization tendencies.

Analytical Framework: Applying the Developmental State Model to Explain the Resurgence of New State Capitalism

This paper builds on the developmental logic promoted by the developmental state literature to systematically explain the resurgence of state capitalism in India. Let me elaborate more on why the developmental logic is relevant to employ as an analytical framework for this study. The developmental logic provides two key insights significant to understanding state capitalism's resurgence in a global south country like India. First, all classical and contemporary literature on the developmental state agrees with the developmental logic that *the state enhances its role in the market to meet 'developmental' challenges*.[1] In the process, the developmental logic suggests, *the government may enhance the role of state-own enterprises to meet developmental goals*. To illustrate, both Amsden (1989) and Wade (1990, p. 179) demonstrated that the developmental states in East Asia selected state entities as policy instruments and deployed them in key strategic sectors in which private sectors were less inclined to enter. Focusing on the creation of POSCO, a South Korean SOE, Amsden (1989, p. 293) elaborated on how the developmental logic induced the Korean government to found this state entity and provided key supports (including capital) at a time when no private player was willing to undertake the risk involved in the steel sector. Similarly, the developmental literature argues that developmental states in East Asia also employed state financial institutions to meet the developmental challenge (Amsden, 1989; Wade, 1990). Thurbon (2016, 2020)'s recent works show how the 'developmental mindset' has induced the East Asian states to mobilize national development financial institutions to meet the needs of the new economic reality.

Recent studies that seek to apply the developmental logic to explain the rise of state capitalism beyond East Asia put the developmental logic for state interventionism at the heart of their analysis. While analyzing the political economy of the state-state relations in the developing countries in the global South, Nem Singh and Chen (2018) argued that 'state-owned enterprises as complex organizations that bear 'new developmental capacities' rather than vessels of rentseeking interests.' Kim (2021a, 2021b) in his classic work on the return of state capitalism in Indonesia after the 2008 global financial crisis, termed state enterprises as '*Agents of Development*' as they are playing key roles in bridging the developmental gap caused by the previous passive states and the economic liberalization policy. Similarly, Dixon (2020) viewed the literature on the East Asian developmental state as conceptually useful for explaining state-led capitalism and state investment funds in other Asian countries.

The second critical insight that the developmental state literature provides, which is also relevant to the developmental logic, is that *the state may enhance its role in the economy through the state-own enterprise to facilitate market capitalism*. Hence, *the state intervention through state-own enterprise should not be seen as against the market capitalism but rather as an instrument to promote it*. This can be termed as 'State with Market'. As such, it provides quite a different picture of the enhancing role of state entities compared to those who depict the rise of state capitalism as against market capitalism. As Chalmers Johnson rightly pointed out, the developmental state is *not* the Soviet-type command economy that works against market capitalism (Johnson, 1982, p. 18). Similarly, Amsden (1989, p. 293) argues that, like the Anglo-American world, the developmental state was deeply committed to a market ideology. The difference lies in how the two systems define the free market in practice. Wade (2014) also suggests that it is not about 'Market versus State', but '*Market with State*' that defines the state's rising role in the capitalist economy.

Now the question is: how does the developmental state facilitate market economy? The developmental state literature provides two critical logics that is significant to answering this question and essential for this study. First, in a market economy, the state can increase public sector investment through the government budget or SOEs to accelerate market expansion and trade. Second, the state can also deploy SOEs in selected industries as an instrument to support and stimulate private sector activities (Amsden, 1989; Wade, 1990, 2018). Accordingly, Thurbon and Weiss (2016, p. 638) suggest that the developmental state literature's significant contribution lies in "challenging the prevailing state-versus-market paradigm in an empirically informed way. The state in the capitalist economy could be part of the solution to economic development." This logic, promoted by the classic literature on East Asian developmental states, has been employed to explain emerging state capitalism in emerging economies by new developmentalist scholars. Kim (2020, 2021b)'s empirically-grounded works on the rise of state capitalism in Indonesia under the Jokowi government is a representative example. Kim's works explicitly link new state capitalism with economic liberalization. Some other emerging literature on state capitalism also agreed with the proponents of the developmental state that the rise of new state capitalism is an instrument for sustaining market development.[2]

To summarise, the developmental logic that promotes the idea of a 'State with Market' offers an alternative framework for understanding state capitalism's resurgence in the global South. This study will apply this framework to explain the key features of new state capitalism in India and how it is different from the old state capitalism. But before that, we need to understand a brief history of the old state capitalism in India.

A Brief History of the 'Old' State Capitalism in India

This section provides an overview of the state-owned sectors in India up to the mid-2010s and narrates the beginning, expansionary phases, and reform periods of the country's state-owned sector. This section focuses on the state-owned sector's survival over a long period and highlights how the state-owned sector has played a pivotal role in the economy especially prior to economic liberalisation, which accelerated from the early 1990s in India.

After gaining independence in 1947, the Indian government envisioned a mixed economic system in which public and private sectors function side by side, as reflected in the 1948 Industrial Policy Resolution (Panagariya, 2008). In 1950, India became a sovereign democratic republic under the socialist-leaning leader Jawaharlal Nehru after adopting the Constitution, whose preamble envisages India as a socialist republic. Article 39 of the Constitution directed the state to secure 'ownership and control of the material resources of the community' to allow them to be distributed to most effectively subserve the common good. Consequently, through the introduction of the 1956 Industrial Policy Resolution and the Soviet-type successive five-year planning framework, the Nehru administration aimed to expand the public sector's economic role (Desai & Bhagwati, 1975).

The post-Nehru era witnessed the strengthening of the public sector vis-à-vis the private sector as Indira Gandhi, Nehru's daughter, expanded the footprints of socialism (Kholi, 2006). The government nationalised fourteen major private banks in 1969 to strengthen state control of the banking industry. Subsequently, the government nationalised the entire coal industry, all insurance companies, and several textile and engineering firms in the early 1970s (Khanna, 2015). Moreover, between 1974 and 1976, the government nationalised three foreign oil giants to dismantle their dominant positions across the petroleum industry (Chaudhury, 1977).

In contrast, the 1980s and 1990s marked a period of economic liberalisation. Reform first began when the Indira Gandhi and Rajiv Gandhi administrations came to perceive that the country needed to review its socialist-oriented policy to escape the slow "Hindu growth rate" (Girdner, 1987, p. 1188; Kholi, 2006, p. 1255; Kumar & Kim, 2019). However, it was the balance of payments crisis of the late 1980s that accelerated the implementation of market-oriented economic policies. India accepted a rescue package from the IMF, which requested the government to adopt broad structural reform. Consequently, the government introduced the 1991 New Industrial Policy, which focused on ending the public sector monopoly in various sectors, the privatisation of state-owned enterprises (SOEs), and trade and investment liberalisation. Compared to significant market opening across the economy, the restructuring of the state-owned sector has been relatively sluggish. The privatisation process was slow mainly due to pressure from the communist parties and trade unions (Khanna, 2015). As a result, the number of operational SOEs under the central government has remained largely the same (233 in 1990 and 234 in 2014).

Although SOEs' prominence in the economy continued, economic liberalisation did influence the way in which these enterprises were operated. This period marked a significant shift in SOEs' goals from developmental contribution to profit generation. The most significant change in strengthening profitability occurred in 1986, when the government adopted the 'Memorandum of Understanding' system, which clarified and specified SOEs' goals with a specific focus on financial targets. Subsequently, the government introduced a promotional scheme by creating categories for SOEs, namely *Navratna* (New Jewels) and *Miniratna* (Small Jewels) in 1997. Furthermore, the government created a category for leading SOEs called *Maharatna* (Great Jewels) in 2010. The main objective of these categories was to encourage weak SOEs to enhance performance to be promoted to higher categories given greater management and financial autonomy. With these reform policies, the government often treated SOEs as 'cash cows' whose primary goal was to pay dividends and taxes to the government (Khanna, 2015).

To summarise, India experienced the massive expansion of the state-owned sector during the 1960s–1970s, when state-owned entities were regarded by the government as major tools in directly conducting economic projects in diverse sectors. This period was followed by the liberalisation phase of the 1990s–2000s, when the sector's priorities shifted. Whereas strong privatisation never materialised due to political opposition, the major goal of many state-owned entities changed from direct development contribution to profit generation. Therefore, by the mid-2010s, India continued to have a large presence of state-owned entities, most of whose key role was considered to be the contribution to state budget revenue.

The Emergence of 'New' State Capitalism

The state-owned sectors of India continued to play a significant role in the economy as a result of gradual privatisation and market-oriented expansion over the previous two decades up to the mid-2010s. This section describes state-owned entities' current status and the recent expansionary trend, which is followed by an analysis of the government's motivations, support, and sectoral focus in terms of state capitalism under the first Modi government (2014-19). This section demonstrates the active mobilisation of state-owned entities to implement strategic infrastructure projects in India. The government' aim of directly tackling development challenges has been to fulfil developmental demands not sufficiently met during the previous liberalisation period. This section will first discuss the drivers of new developmental logic in the Modi Government and then provide empirical illustrations of state capitalism in India.

Drivers of New Developmental Logic in the Modi Government

After the 2008 global financial crisis, India was mainly concerned about the slowdown in economic growth that had been praised by the world. Indeed, India's economic growth rate more than halved in 2008 during the global financial crisis before recovering to pre-crisis rates of 7–9% in the following two years. However, the recovery was short-lived and the economic growth rate was under 7% for three consecutive years prior to the 2014 election. Based on this inadequate economic performance in the early 2010s, some observers have suggested the end of a rapid economic catch-up that India had experienced during the previous decade. During this period of weakening economic vitality, concerns about weak manufacturing and heavy dependence on the service sector were re-emphasised in the policy circle as the economy was not producing sufficient high-quality jobs, thereby increasing inequality (Ray & Kar, 2020). A lack of infrastructure investment during the first half of 2010s was also highlighted as a key factor in economic, and particularly manufacturing, slowdown.[3] The public sector's role faced scrutiny as private investment's share in infrastructure projects shrank over the previous decade (Government of India, 2020b).

In the 2014 general election, the Bharatiya Janata Party led by Modi formed a majority government for the first time in 30 years. Since then, a new developmentalist thinking began to shape policy choices. The Modi government regarded the previous government as the 'soft state' unable to deal with developmental challenges (NITI Aayog, 2018). Prime Minister Modi, who often praised and sought to emulate the East Asian development model, projected himself as a *Vikas Purush* (development man).[4] The new administration adopted the headline grabbing 'Make in India' initiative, which aims to significantly expand manufacturing's economic contribution. While the core aim of the initiative is to attract private investment, the Modi administration has argued that infrastructure provision, which is necessary for attracting investors, cannot be left to market forces, therefore becoming the government's responsibility.[5] The economic team viewed that waiting for the private sector to initiate significant investments in infrastructure was not practical (Government of India, 2020b; NITI Aayog, 2018). There were two means used to achieve infrastructure investment goals, namely capital expenditure through state budget and through SOEs. SOEs' participation was deemed important as the government needed additional financing sources due to a tight fiscal situation.

Resurgence of State Capitalism in the Modi Government: Empirical Illustrations

This subsection will demonstrate that the role of SOEs strengthened in India's economy under the Modi administration. In the financial year 2012-13, there were 230 non-banking SOEs. However, this number increased in the financial year 2019-20 to 256. Also, as of 2020, there were 96 SOEs under construction, increased from 74 in 2017 (Government of India, 2022) SOEs dominate many key sectors, including petroleum, mining, and energy, and are also important players in manufacturing sectors such as steel, aluminium, and pharmaceutical. Under the Modi administration's developmental strategy, SOEs' assets also increased 8% on annual average from 29 trillion rupees in 2014 to 43 trillion rupees in 2019 (Government of India, 2015, 2020c, also see figure 3). A notable trend of state capitalism under the Modi administration has been the strengthening of government command over various financial institutions and mobilising them for development purposes. For instance, the government has also converted the Industrial Finance Corporation of India (IFCI), the first development financial institution established in India in 1948, into a SOE by increasing the government's shareholding from 47.9% in 2014 to 56.4% in 2018 (Government of India, 2019a). State financial institutions specialising in infrastructure have also increased in size and variety. India Infrastructure Finance Company Limited (IIFCL) has seen its authorised capital more than quadruple in 2019 and been given a goal of financing big-ticket infrastructure projects in line with government strategy (Government of India, 2019b). The administration also established India's first sovereign wealth fund, the National Investment and Infrastructure Fund (NIIF), in 2015 to strengthen infrastructure investment. The NIIF manages three funds, namely the Master Fund, Fund of Funds, and Strategic Fund, to raise capital from domestic and international institutional investors. As of 2020, the NIIF had raised over 4.4 billion dollars of equity capital commitments. Furthermore, the government is currently planning to establish two new state-run developmental financial institutions, namely the National Bank for Financing Infrastructure and Development (NBFID) and the World Solar Bank.

The Modi government provided substantial financial support to state entities in order to stimulate India's development strategy. The government's average annual investment (equity plus long-term loans) in SOEs increased from 9.7 trillion rupees between 2012–13 and 2014–15 to 13.7 trillion rupees between 2015–16 and 2018–19 (Government of India, 2015, 2020c). The government also significantly increased capital injections into public banks, which summed 2.5 trillion rupees during 2015–2019 compared to 0.1 trillion rupees during 2005–2010 and 0.5 trillion rupees during 2010–2015 (Bandyopadhyay & Bhattacharya, 2018; Government of India, 2019a; Shetty, 2019). Paid up-capital in development financier IFCI increased from 60 billion rupees in 2009–2014 to 113 billion rupees in 2014–2019. The government has also provided capital to other financial institutions, including IIFCL and NIIF. In addition, India's largest state-own insurance company, the Life Insurance Corporation of India, injected 10.7 trillion rupees into SOEs in 2014–2019 compared to 5.2 trillion rupees in 2009–2014 (Reserve Bank of India, 2020).

Modi's new state capitalism focused firmly on infrastructure provision. Figure 1 illustrates that the public sector's infrastructure investment almost doubled from 3.8 trillion rupees in 2013 to 7.5 trillion rupees in 2019 amid the private sector's stagnant investment. This trend confirmed the developmental state logic discussed in the analytical section, given that the Indian state enhanced its role to meet developmental challenges amid the decline of private sector investment. The Modi government also began to implement the ambitious National Infrastructure Pipeline project, through which the central government planned to invest 79% of the total capital expenditure in

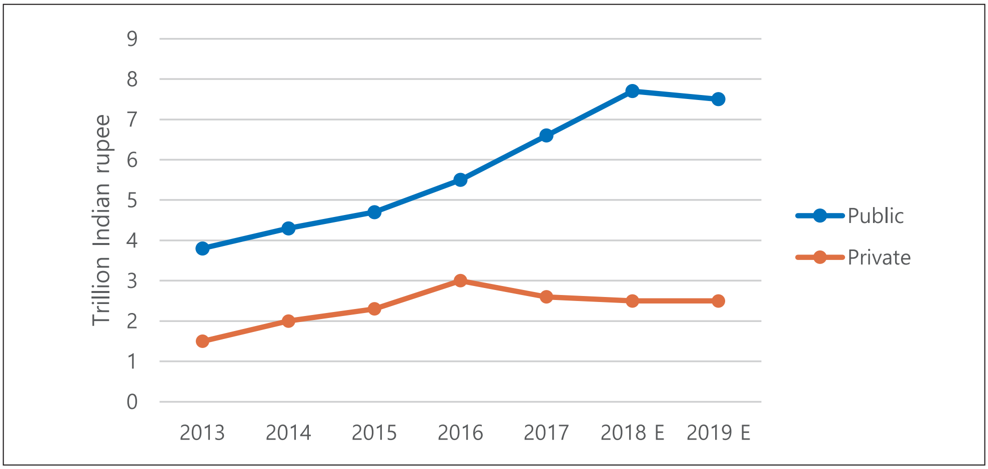

Figure 1. India's infrastructure investment by type of investor.
Source: Author's analysis based on data from (Government of India, 2020b).

collaboration with state governments during 2020 to 2025 (Government of India, 2020b). The focus of Modi's infrastructure strategy has been energy, transportation, and urban areas and there has been notable progress in specific segments led by state-owned entities.

With the participation of existing state entities, as well as National Highways and Infrastructure Development Corporation, which was established in 2014, highways built during 2014–2018 were 73% longer than those built during 2010–2014 (Roy, 2018). The government also gave more authority to the state-run Solar Energy Corporation of India (SECI) by making it into a commercial entity in 2015 to address development challenges in the renewable energy sector. Due to the SECI's remarkable efforts, India came to produce the world's cheapest solar power, installing 38 solar parks across the country during 2014–2020 (Wood, 2019). The National Thermal Power Corporation (NTPC) became an important player in the Modi government's push to strengthen energy security. NTPC has enhanced its installed capacity from 44GW in 2014–15 to 55GW in 2018–19. The government has also mobilised state-run financial institutions. The IIFCL's direct lending to infrastructure projects increased from 353 billion rupees in 2009–2014 to 459 billion rupees in 2014–2019, and more than 80% of this lending went to road and power sectors (IIFCL website). The NIIF's first investment target has been infrastructure-related state enterprises, and the NIIF has also formed partnerships with public banks and state enterprises to find funding opportunities in diverse infrastructure areas such as energy.

When 'New' State Capitalism Meets Market Liberalisation

Since the mid-2010s, India's state-owned entities have grown significantly and have increasingly been assigned to contribute to development projects. The government' decision to actively mobilise state-owned entities has been based on the disappointment in slow development progress in certain areas during previous decades characterised by economic liberalisation. New state capitalism has played an important role to solve developmental challenges. Do these trends suggest that India is moving towards more statist approach of managing their economies? This section explains that there is more to the overall development strategy than meets the eye by discussing the notable characteristics of new state capitalism in liberalised market economies.

India often continue to be defined as having less liberalised economies compared to other countries, though current circumstances show a marked difference compared to the situation during the previous peak of state capitalism. As discussed above, India experienced notable economic liberalisation from the 1990s, and various facets of its economy, including trade, investment, finance, and business regulations, now demonstrate the results of this reform. In contrast to the past, new state capitalism is resurging, not only in a more liberalised, but also a *liberalising* market environment (Figures 2 and 3). This section discusses the characteristics of India' economic development strategy that includes both liberal economic and state capitalist aspects. These characteristics are as follows: (i) enhancing the business environment, supported by state-led infrastructure development; (ii) sustaining fiscal health during strong developmentalism by mobilising off-budget resources from state-owned entities; (iii) invigorating private investment by offering business opportunities linked to state-owned entities; and (iv) using private management expertise and knowledge to run state-owned entities.

Firstly, the Modi administration has emphasised the importance of enhancing the business environment and attracting private investment. The administration has expressed close attachment to, or even obsession with, the World Bank's Ease of Doing Business (EoDB) index amid strengthening state capitalism. The Modi government has adopted the EoDB index as a major yardstick for gauging reform performance and spent significant bureaucratic and political capital to enhance this index through various reform policies. The government has also attempted to legitimise resources injected into the state-centred infrastructure development by emphasising infrastructure's essential role in enhancing the business environment.

India's EoDB ranking climbed up from approximately 130th during the previous government to 63rd by 2020. Modi's aggressive economic reforms aimed to cut red tape and enhance infrastructure, becoming the driver of this performance. The Modi government liberalised FDI rules more quickly than predecessors: 37 sectoral reforms with regard to FDI were implemented

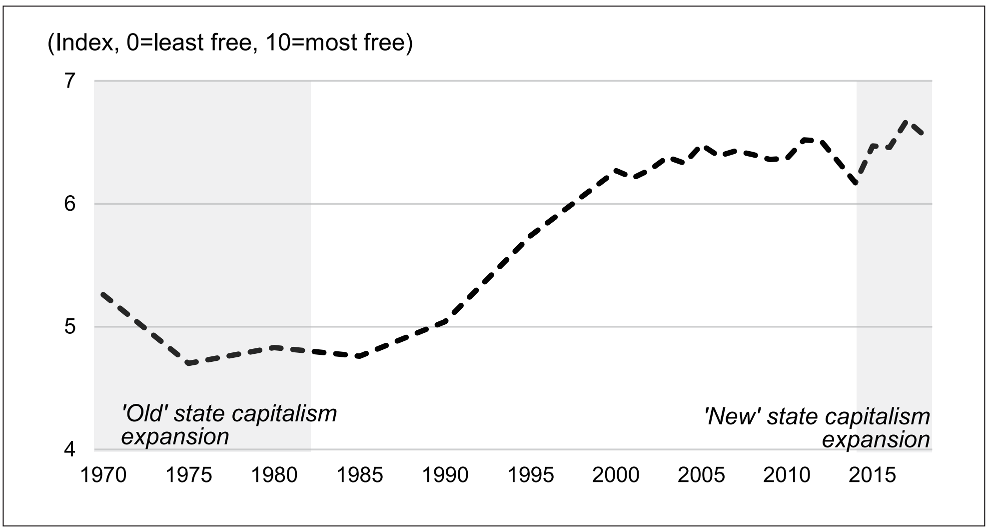

Figure 2. India's economic freedom index
Note: Publication years are used for the freedom indexes.
Source: Author's analysis based on data from the Fraser Institute

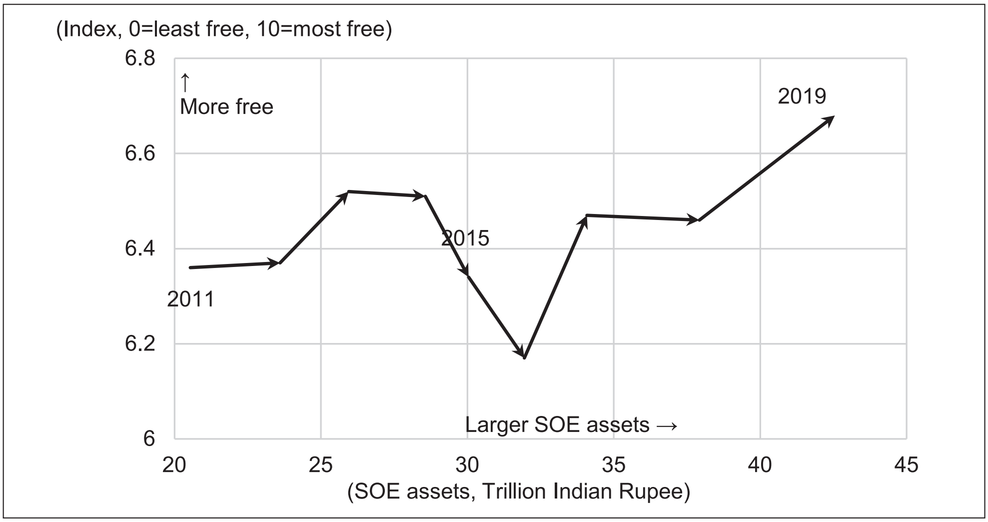

Figure 3. India's state enterprise assets and economic freedom index

Note: (i) Publication years are used for the freedom indexes; (ii) departmentally run public enterprises, banking institutions, and insurance companies are not covered.

Source: Author's analysis based on data from the Fraser Institute and the Government of India (various issues)

in 2014–2017, compared to 19 in 2004–2009 and 18 reforms in 2009–2014 (Rossow, 2017). The Modi government has embarked on further reforms to achieve the target of being in the top 50 of the EoDB ranking, announcing in 2020 that various economic sectors are to become more open to private sectors (Ministry of Finance, India, 2020).

Secondly, one important impetus of mobilising state-owned entities in India has been the liberalised financial market's perception of the fiscal situation. By using the state-owned sector, the central government was able to maintain fiscal conservatism, at least in the short term, while strengthening state-centred developmentalism. This strategy was related to the fact that India had an institutional rule in place that constrains discretionary spending. Furthermore, India had suffered from financial market instability and sudden currency depreciation during the year just before Modi came into power. During the 'taper tantrum', the country was identified as part of 'fragile five' economies with weak current account and fiscal circumstances (Basri, 2017). This event reminded the Indian government that international finance kept a watchful eye on developing countries' economic fundamentals.

The Modi government has been sensitive to the market perception of India's fiscal situation. India's fiscal consolidation, which was maintained after the implementation of the Fiscal Responsibility and Budget Management Act in 2003, was halted in the late 2000s when the country suffered due to the consequences of the global financial crisis (Kumar & Soumya, 2010). The declining trend of central government fiscal deficits was reversed. Against this backdrop, the Modi government established a new timeline to reduce the fiscal deficit to 3% of the GDP by 2020–21 (Ahluwalia, 2019). Consequently, the central government fiscal deficits declined from 5.3% of the GDP on average in 2009–2014 to 3.6% of the GDP on average in 2014–2019 (Sitharaman, 2020). Fiscal consolidation amid strong developmentalism was possible partly because the Modi government mobilised SOEs and development financiers to expand capital expenditure. Figure 4 illustrates that while the government's capital expenditure remained similar

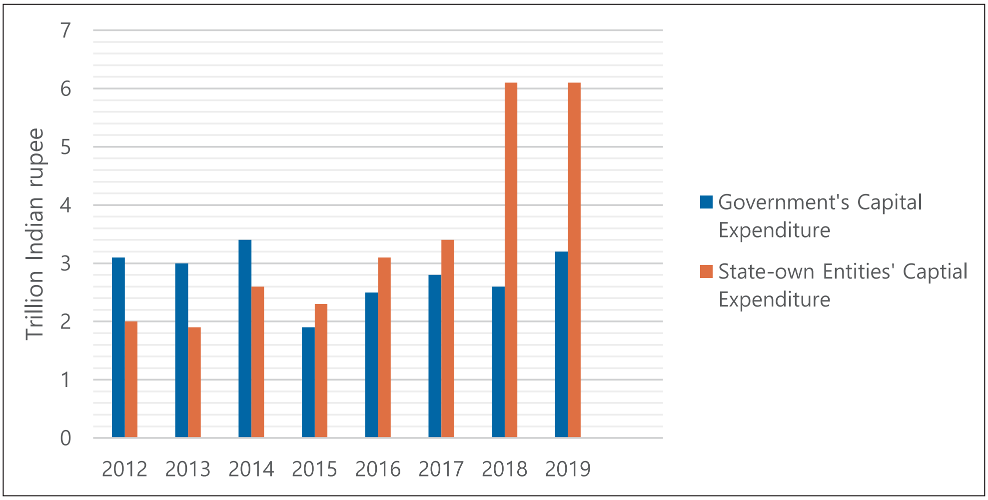

Figure 4. Trends in government's capital expenditure via-a-vis state-own entities' capital expenditure
Source: Constructed by the author using data from (Singh et al., 2019).

(11.5 trillion rupees between 2012 and 2015 and 11.1 trillion rupees between 2016 and 2019), state-own entities' capital expenditure more than doubled (8.8 trillion rupees and 18.7 trillion rupees)

Thirdly, the Modi government has partnered the state-owned and private sectors to stimulate investment and create synergy. The aim of strategic partnership has been for the state to take advantage of the private sector's capital and technology in exchange for opportunities provided by the government in financing and regulations. In India, private investors have been invited to participate in and co-develop strategic industries with state-owned entities particularly in projects that involve high risks and would benefit from the government' explicit and implicit guarantees and support.

The Indian government has forged strategic partnerships between state enterprises and private companies to develop infrastructure. A joint venture between Adani Renewable Energy Park and state-owned Rajasthan Renewable Energy Corporation is a key example of this strategy. The state-owned Airports Authority of India and the Adani Group have also fostered a partnership. Adani group was a newcomer to the sector but became one of the largest private airport operators overnight with this partnership (Findlay & Lockett, 2020). Other sectors have also witnessed the establishment of public-private joint ventures. With the aim of making India a defence manufacturing hub, state-owned Hindustan Aeronautics established joint ventures with global firms such as Safran Helicopter Engines and Rosoboronexport (Ministry of Defence, India, 2018). The government has also invited private companies to become partners in the space sector and allowed them to use state-run Indian Space Research Organization's facilities and other strategic assets to enhance their capacities (Ministry of Finance, India, 2020). India's sovereign wealth fund has established partnerships and attracted investments from both global and domestic financial institutions.

Finally, the Indian government has also been embracing the private sector's management and business expertise to a greater extent while strengthening state capitalism. Although the developmental role has been assigned to state-owned entities, the importance of sustainability of development projects has been emphasised; therefore, financial performance has not been overlooked. The government viewed that this dual goal of development contribution and financial sustainability would be achieved by personnel with private sector background and strong industrial and financial experience driving state capitalism expansion. Furthermore, by embracing actors from the private sector, the government aimed to convey that their state capitalism was aware of and respected market mechanisms.

India's sovereign wealth fund is managed by professionals with strong financial market backgrounds. NIIF's first managing director and chief executive officer, Sujoy Bosh, has over three decades of experience in market investing and project financing. Before joining NIIF in 2016, Bosh worked at International Financial Corporation, a member of the World Bank Group, for over two decades. The Modi administration also ended an era of socialist-planning when it abolished the 65-year-old Planning Commission, arguing that the top-down bureaucracy was no longer relevant for India because the country has embarked on a path towards market economy. Instead, the government has created a leaner policy think-tank, namely the National Institution for Transforming India (NITI Aayog), which has extensively engaged with policymaking in diverse areas, including the state-owned sector, with the aim of strengthening efficiency and professionalism (Government of India, 2020a). The institution's key positions have been filled with academics specialised in public policies with strong industrial knowledge.

Conclusion

By examining the case of the resurgence of state capitalism in India, this paper finds that 'new' state capitalism is strongly influenced by the developmental logic promoted by the developmental state literature. On one hand, new state capitalism under the Modi administration is mobilized to supplement, rather than replace, the liberalized economic system by dealing with areas progressed slowly when the government relied on the private sector. India's new state capitalism's main focus has been on infrastructure that policymakers perceived as severely underdeveloped during the period of liberalization. State capitalist tools have been used to revive the infrastructure sector, which was understood to have a limited chance to upgrade if left to market forces.

On the other hand, the Indian government has made efforts to enhance national competitiveness as defined by the logic of capitalist competition during *and* using new state capitalism. As the Indian state attempted to avoid the disciplinary effects of international money, it was sensitive to the performance in oft-cited, ubiquitous proxies of economic competitiveness, such as the business environment index, fiscal balance, public-private collaboration, and bureaucrats' market-oriented credentials. During this period, new state capitalism was even mobilized to strengthen these signals, often within pro-market policies, and private agents were brought in and influenced state capitalism operation.

The take home message of this study is that the resurgence of new state capitalism in democratic developing economies in the global South can be analyzed from a different perspective, that is developmental logic. Indeed, as this study shows, the deep integration of 'state capitalism' and 'market capitalism' bound by the developmental logic offers a different perspective to the dichotomous analytical view that separates these two terms. Under the domination of the developmental logic, 'new' state capitalism in democratic developing economies now plays a role in fulfilling the developmental demand unfulfilled during liberalization *and* strengthening 'national competitiveness,' which involves supporting the private sector's further advances.

Now, let me turn to the areas for future research and the prospects of India's new state capitalism. This paper has several limitations that future research should address. Since this paper focuses on Modi's first term (2014–2019), I was unable to discuss in detail the post-

COVID developments, particularly regarding the role of SOEs in the Indian economy during the post-COVID era. Future studies should explore how India's state capitalism has evolved since then. Future research should also examine the outcomes of India's new state capitalism and the deployment of SOEs for major development projects under the Modi government. A notable positive outcome is India's improvement on the World Bank's Logistics Performance Index, where it rose 16 places, from 54 in 2014 to 38 in 2023. This improvement was a key objective in deploying SOEs within India's economy. However, challenges remain, such as the Modi government's simultaneous promotion of SOEs alongside its emphasis on privatizing state entities. Future research should delve into this complexity.

The key question now is: what are the prospects for India's new state capitalism? As India aspires to become one of the top three economies by this decade and a developed nation by 2047, the role of state entities is bound to increase. We are likely to witness the establishment of new state entities and the expansion of the roles of existing SOEs to implement future development projects. Since the private sector alone cannot meet India's developmental challenges, developmental statism is on the rise (Kumar, 2023). Against this backdrop, the role of state entities is likely to grow further in India.

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Conflict of Interest

The author(s) declare that there is no conflict of interest

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Notes

1. For classic literature on the developmental state, see Johnson (1982), Amsden (1989), Evans (1995), Wade (1990). For the evolution of the DS model and its contemporary relevance, see Thurbon (2016), Haggard (2018), Wade (2018).
2. See, for example, van Apeldoorn et al. (2012), Carney (2015), Haberly and Wójcik (2017). This literature suggests that the rise of state capitalism in the global economy after the 2008 global financial crisis is not a reaction to market liberalism but rather an instrument to sustain it.
3. Interviews with Indian economy experts in New Delhi.

4. Modi said on various occasions that he and his economic team studied the East Asian developmental model, especially South Korea's economic developmental model, to emulate it in the Indian context. The author's various interviews in New Delhi with scholars and policy experts confirmed this view.
5. Interview with one key member of policy-making team of the Modi administration in New Delhi.

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