

State capitalism essay sample

[Government](#), [Capitalism](#)



State capitalism in emerging markets is triumphing over liberal capitalism. State capitalism occurs when the government actively intervenes with firms and companies to boost economic growth. For example, the Chinese state accounts for 80% of the country's companies. Hence, by controlling these multinational corporations (MNCs), the China government shapes the overall market by managing its currency, directing funds to favored industries and working closely with Chinese companies both national and abroad.

There are a few factors that initiated the forming of state capitalism. For one, infant industries needed protection through tariffs to increase their competitiveness. During the Yom Kippur war, the price of oil increased exponentially. Arab governments tightened their grip over oil companies which lead to growing financial surpluses. Embracing globalization by creating economic zones and attracting foreign investors is also a form of state capitalism. These state capitalist exercise their authority over MNCs in two forms: state owned enterprises and sovereign wealth funds.

State owned enterprises (SOES) are becoming wealthier and more powerful than before, due to judicious pruning and relentless restructuring. This has result in greater return of assets and increase in competitiveness on a global scale. However, there is hardly any direct relationship between the state enterprise and the government, where SOES report to the authorities. Instead, most governments prefer to exercise control through their ownership of shares, resulting as powerful shareholders in the developing world. Governments also offer patronage to private companies after it becomes a winner due to their lack of experience of a sector.

Apart from that, state capitalist also manage large pools of capital in the form of sovereign wealth funds (SWFS). There are 2 forms of SWFS: funds intended for investment and funds for economic development. However, the latter is often favored as foreign portfolio investments tend to be unstable. State capitalists have focused on research and development for the long term productivity and profitability of the company. These funds are taking a more active interest in the ways the companies they owned are managed. For example, demanding a seat on the board. Hence, this leads to further government intervention.

There is a variety of state capitalism. In China, the party state exercises power through 2 institutions: State Owned Assets Supervision and Administration Commission (SASAC) and Communist Party's Organization Department (CPOD). SASAC is the world's largest controlling shareholder. They regulate pays of SOE bosses in order to maintain a 'harmonious society'. The CPOD appoints all senior figures in China Inc. In Russia, the Kremlin turns scattered companies into national champions. They control Russia's oligarchs, transforming private companies into state organs. Persecution was needed to instill obedience so that SOEs would dutifully perform public works and to stay out of politics. Russia's SWFs have also been keen on buying foreign companies.

As for Middle Eastern monarchs, their power lies in petrostate capitalism. They manage their economies by embracing professional management and by practicing state-sponsored modernization. Brazil embraces Anglo-Saxon capitalism. The government pours resources into national champions, mainly

in natural resources and telecoms. They are also the minority shareholder in many companies, thus limiting the state to reward clients through SOES or pursue social policies. Private shareholders have power to voice out too. However, there have been unwise interventions, where companies are forcefully merged and incompetent, local equipments are used. To summarize, all state capitalists have power to shape companies, but companies are able to shape politicians too, as managers become more sophisticated.

Among the advantages of state capitalism is that national champions produced can compete globally. They boost national pride and ensure local companies can compete with foreign MNCs. Through state capitalism, emerging companies can learn from the rest of the world. By listing SOEs on foreign exchange, they are exposed to sharp bankers and analyst; buying foreign companies gives them access to rare expertise. State capitalists are able to improve the country's capacity for independent innovation, such as establishing research facilities and investing into science and technology clusters.

However, politicians tend to be overzealous when it comes to independent innovation among their national champions. Instead of trying to build up the next 'Silicon Valley' in their own country, they might as well import the latest technology or materials from China as it is much cheaper and it saves time and effort as well. Research has also shown that SOEs are also less productive as they are spoilt by government perks and corruption, where cronyism is evident. Investors of SOEs are also at risk as they have poorer

cost control than regular companies and they are obliged to pursue social goals as well. Politicians can suddenly sack senior managers or lower company prices.

State capitalists have also combined forces to achieve outstanding economic results. China and Russia have increased bilateral trade; China is the biggest oil importer from the Middle East, whereas major players from the Middle East are China's biggest investors in their Agricultural Bank. Sometimes, state capitalists can get suspicious of their partner's hidden agenda. In China, there are more than 20 million Muslims; this causes fear that the Gulf may export radical Islam as well as oil. Western companies are also increasingly concerned about China's trade policies, where they are forced to hand over intellectual capital to gain access to China's market. China's refusal to allow their currency to appreciate has fuelled dangerous global economic imbalance.

In conclusion, although state capitalism has been very successful in many countries, there are still major loopholes present in the system. Corruption and cronyism cannot be avoided; and most importantly market liberalization has been bound by politicians with both social and economic goals as well as achieving their own personal desires. Thus, there would always be tensions in state capitalism but as long as the state bosses control their economy rationally. Then only would this system would benefit both the country and their partners.