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Abstract

In the modern day, many nations have instituted State Capitalist policies to grow their economies and increase their international influence. To evaluate the efficacy of this strategy, this paper analyzes the historical impacts of State Capitalism, as well as its effects upon economic concepts, including competition and innovation. This work also analyzes the ways in which State Capitalist policies have negatively impacted the international reputations of nations such as Russia and China and explores the specific national characteristics and circumstances that are required to truly alter the global power structure. Ultimately, the work concludes that state capitalism is unlikely to lead to large-scale changes in the international system, as it diminishes a nation's reputation, provides no avenue for enhanced influence in international institutions, and is not impactful enough to open up the opportunity for global change.

Keywords

State Capitalism, Development, International Institutions, Economy

Disciplines

Economic Policy | International Economics | International Relations

Comments

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State Capitalism's Inability to Alter the Global Power Structure

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POL 252: North-South Dialogue

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Over the course of the last two centuries, the world has undergone numerous astonishing transformations. Empires have fallen, colonies have achieved independence, global life expectancies have risen, and access to food and clean water has improved (Rosling 2018). Although these aspects of global life and more have changed drastically, the nature of relations between the developed nations of the global North and the developing nations of the global South has remained relatively similar. Despite the expansion of state capitalism, the North has retained its role as the dominant actor in international policymaking whilst the South has been largely unable to increase its limited international influence. This paper will argue that a rise in state capitalism does not have the potential to change the global structure of power or the nature of relations between the global North and global South.

Before one can begin to discuss the reasons why state capitalism has failed to yield lasting changes, it is imperative to define the important concepts associated with the argument and explore their histories. Firstly, state capitalism is defined as a model of economic planning in which the nation's government plays a central role in designing and managing the country's economy. Although forms of state capitalism can vary, some of its most common attributes include the existence of state-directed industries and the ability of the government to control and distribute capital (Alami, Dixon, and Mawdsley 2021, 1297). Additionally, the global North refers to more developed nations whose economies are based upon the production of more complicated secondary goods and the sale of services such as education and finance. Furthermore, Northern nations usually receive higher scores on quality-of-life indexes due to their accessible healthcare, enhanced access to food and water, and more. On the other hand, countries in the global South are typically less developed, with less complex economies based upon agriculture, primary goods, and the exportation of raw materials. Citizens living in

developing nations may have relatively low incomes, and the nation may score lower on quality-of-life measures such as access to potable water and the infant mortality rate.

The concept of state capitalism has existed for an impressive amount of time. For instance, a relatively early example of this idea can be seen in the work of Alexander Hamilton. During his term as Secretary of the Treasury, he advised the national government to impose steep tariffs on imported goods, such as textiles, so that infant industries within the nation could begin to flourish (The Economist 2012). As time progressed, other nations, including Germany under the leadership of Otto Von Bismarck, employed similar tactics to help their newly established industries expand. At this point in time, the goal was to grow industries to a size at which they could become competitive in global markets. However, following the end of the Second World War, global attitudes toward the free market policies of neo-liberalism started to change. National governments began to acknowledge the potential benefits of becoming involved in their economies. This realization is perfectly summarized through the Compromise of Embedded Liberalism, which encourages nations to follow the free-market teachings of Adam Smith when partaking in international trade, while also giving them the ability to take the advice of John Maynard Keynes by managing their own economies (Mendelsohn and Wolfe 2004, 261). Some nations, such as the United States, used this newfound economic philosophy to implement social safety net programs. Additionally, Japan utilized this philosophy to justify their decision to found the Ministry of International Trade and Industry. At this point, the goal of these policies was still to protect growing industries and to improve the lives of the citizens. However, a new more aggressive form of state capitalism would soon make its first appearance.

Starting in the 1960s, many nations, including Singapore, implemented a series of new state capitalist policies. In the case of Singapore, the nation began to craft state-owned-

enterprises while also investing in productive infrastructure (Som 2022, 251). Furthermore, the country's government intentionally limited foreign direct investment so that they could manage their economy themselves. With these policies in mind, one can see that the goal of state capitalism has once again evolved. Instead of protecting infant industries, Singapore wanted to use state capitalism to rapidly develop and compete in global markets (Som 2022, 256).

Following early economic successes, other nations seeking power and financial security began to adopt similar policies. Currently, nations such as China, Russia, Norway, and more continue to use state capitalism to grow their economies and to try to gain power and influence in the international system.

Having explored the concepts associated with the topic as well as the evolution of the concept over time, we can begin to discuss the reasons why state capitalism is unable to alter the global structure of power. My first argument is that state capitalism leads to issues that can cause a nation to lose respect and legitimacy. In the short term, a transition to these policies may yield economic growth and other benefits. Although these changes may appear impressive, the historical record has shown that improvements attributed to state capitalism are often accompanied by numerous problematic issues. A pertinent example of this is corruption. Under a system of economic control, members of the government are entrusted with the responsibility of managing the economy. It is up to politicians and bureaucrats to choose new business leaders and the industries in which the state will invest. Unfortunately, the temptation to use this role to benefit oneself often proves to be too great, and national leaders take part in corrupt activities (Musacchio and Lazzarini 2012, 48). A report compiled by Yukon Huang for the Carnegie Endowment for International Peace helped to shed light on the relationship between state capitalism and corruption in China. She concluded that the nation's impressive economic growth

was directly correlated with a rise in corruption. As profits grew, it became easier for leaders to find ways to use their positions to grow their own wealth (Huang, 2015). For instance, politicians could encourage the state to invest in companies in which they own shares. In a report published by Sixth Tone, a China-based organization dedicated to keeping the nation's population well informed about state matters, state-owned enterprises were found to be the second most corrupt sector in the nation, with over 700 reported cases of bribery and graft (Sixth Tone 2017). A similar trend of corruption has been seen in Russia, which employs a form of state capitalism to manage its industries. The state has funded massive infrastructure projects and taken control of valuable industries, including oil extraction. As expected, these developments created more opportunities for political and financial corruption, which greedy officials were more than willing to use to their advantage (Kinossian and Morgan 2022). According to a report by the Organization for Economic Cooperation and Development, an impressive 81.11% of all bribes offered to government officials around the world were extended to officials working for state-owned-enterprises, and unfortunately, 27% of these officials accepted the bribe (OECD 2014, 24).

Additionally, economic issues capable of hindering future growth frequently arise as a result of state capitalism. In a free market system, firms actively compete with one another. It is imperative that companies design new products so that they can increase their profits and become more competitive in national and global markets. Although a state-controlled economy may be useful in quickly growing a nation's gross domestic product, analysts from *The Economist* argue that the potential for radical innovation is incredibly limited under a system of state capitalism (The Economist 2020). Essentially, since the national government is willing to protect a company from any sort of competition, the firm does not have to create innovative

products, as they will always retain their dominance in the market. According to the 2021 Global Innovation Index, eight of the ten most innovative nations in the world practice limited or no state capitalist policies (WIPO 2021). China and Russia, two states that employ more aggressive state capitalist policies, ranked twelfth and forty-fifth in the index. The point is that a freer market usually results in greater competition between firms, which in turn encourages breakthroughs in production techniques, technology, and more (Marshall and Parra 2019, 223).

Another pressing issue that is often correlated with a transition to state capitalism involves human rights abuses. In nations where industries are privately owned, the government has the ability to craft restrictions designed to protect the rights of its citizens (Nickel 1993, 83). National governments can enforce these important policies through bureaus and ministries that are tasked with the duty to ensure that firms abide by these regulations. This system only functions because the regulator and the body receiving regulation are two different actors (Rachal and Wilson 1977, 4). Since the government and the businesses are separate from one another, the government has no incentive to give specific companies preferential treatment or to ignore their policy violations. Unfortunately, this process is less likely to occur in nations where state capitalism is prevalent. Since the state and industries are one and the same under this model of economic control, there is little reason for the government to regulate its own activities. Since many nations transition to state capitalist systems to develop rapidly, they have no incentive to impose human rights protections that have the potential to limit the speed and size of their economic expansion. China once again serves as an excellent example of this unfortunate reality. The nation's development has not been accompanied by labor reforms, and there are numerous accounts of poor working conditions, including physical abuse, low pay, and egregious hours (Chan 1998, 891). Although these issues are incredibly pressing, many of them pale in

comparison to the presence of forced labor. Over the last few years, there have been many reports of religious and ethnic minorities being unjustly detained and forced to work for state-controlled companies (Lehr 2020). According to Amy Lehr, a researcher from the Center for Strategic and International Studies, the Chinese government has been using forced labor to support some of their largest industries, such as textile production (Lehr 2020). This report provided detailed information regarding the Xinjiang region, where the Chinese government has forced over 60 thousand citizens to work in state-owned enterprises and programs, including the Xinjiang Production and Construction Corps (Lehr 2020). This occurrence is not solely limited to China, as data from the Walk Free Foundation shows that over 10 million people in China, India, Russia, and other nations that practice state capitalist policies are living in “modern slavery” (Zandt and Richter 2021). The important takeaway here is that a system of state capitalism allows industries to rely upon forced or coerced labor, since the nation’s companies and government are one and the same.

Each of these issues and others can prevent a nation-state from changing the structure of global power. To become powerful, a country must have the respect and admiration of their fellow nations. If issues of corruption, forced labor, and stagnant innovation exist within a country’s borders, the nation cannot acquire the soft power that will allow it to improve its role in the current world order (Shambaugh 2015, 99). Although China and other nations spend billions of dollars annually to counteract the effect of these issues on the public’s opinion of their countries, their efforts have failed to yield any noticeable improvements in their global images (Shambaugh 2015, 107).

My second main argument is that state capitalist policies fail to assist nations in gaining influence within international institutions. Before a country can begin to reshape the international

system or craft a new one entirely, they must possess immense amounts of power in any existing policy-making institutions. An enhanced presence in a large international organization offers a nation many unique benefits, such as greater legitimacy, more leverage in negotiations, fewer difficulties in gathering support from smaller nations, and many more (Baldota 2021). Despite impressive economic growth, many state capitalist nations have been unable to increase their presence in key international institutions. According to the work of Michael Parizek and Matthew Stephen, there is no connection between increasing economic prowess and staffing representation in organizations such as the United Nations, the International Monetary Fund, and the World Trade Organization. Through their analyses of nations such as Brazil, Russia, India, and China, they were able to conclude that international institutions are largely unwilling to adapt to more accurately reflect shifts in political and economic power (Parizek and Stephen 2020). For example, despite its economic growth, China's percentage of staff in the International Monetary Fund only increased by 2.44% between 2004 and 2015 (Parizek and Stephen 2020). A similar trend can be seen with other nations, such as Brazil and Russia, which were only able to increase their representation by .1% and .17% (Parizek and Stephen 2020). This refusal to enact institutional change is not limited to just the IMF. In the United Nations, state capitalist countries like China and Russia lost staffing representation between 1997 and 2015. Russia lost 2.1% of its staff representation, while China lost .01% (Parizek and Stephen 2020). These trends promote a relatively bleak outlook for the potential for change in the international system. No matter what a nation does to improve its status, its efforts are unlikely to be rewarded with greater representation. This unfortunate reality is also visible within the leadership structures of many international organizations. For example, almost every World Bank President has been born in the United States. The two Presidents who were not born in the United States received their

education there. In a similar manner, the director of the International Monetary Fund has always hailed from a European nation (Basu 2019). This unwritten agreement ensures that recently developed countries are unable to attain key leadership roles in the international economy. Therefore, even if more nations were to transition to state capitalism with developmental aspirations in mind, their representation through institutional leadership will fail to adapt accordingly.

With this avenue of institutional advancement proving ineffective, some nations have decided to create their own international institutions. The most well-known example of this modern-day phenomenon comes from China. Due to the Chinese Communist Party's dissatisfaction with their current roles in international institutions, they have founded rival organizations, such as the Asian Infrastructure Investment Bank and the Belt and Road Initiative. According to Hong Yu from the University of Singapore, the government has taken up these initiatives to "strengthen China's political influence and promote closer economic integration" (Yu 2017, 354). Although the early years of these initiatives garnered impressive amounts of global attention and participation, many analysts believe that these programs are losing their momentum. For example, Malaysia has decided to cancel \$11.6 billion worth of Chinese infrastructure projects, and more than forty developmental projects have been plagued with corruption and other legitimacy-diminishing issues (Loh 2021). Likewise, the AIIB has also been criticized for numerous human rights violations and a lack of effective oversight (Horta and Wang 2021). The mere presence of these issues can undermine any nation's attempt to gain power or influence through the creation of international institutions. With all these problems in mind, one can see that even a transition to state capitalism would not help a nation to modify the international system in any meaningful way.

My third major argument is that history has shown that state capitalism is incapable of changing the nature of inter-state dialogues. I consider this argument to be a culmination of the previous two, as it discusses the nature of global changes in general. After analyzing the evolution of the dialogue between the global North and the global South, it appears that an impactful global crisis or conflict must precede change. For instance, the Bretton Woods Conference relied upon the chaos and destruction of the Second World War and the Great Depression to forge a new international economic order. According to Sandra Kollen Ghizoni of the Federal Reserve, the United States and other nations saw the lingering effects of the war as the ideal opportunity to implement global changes (Ghizoni 2013). In other words, the occurrence of a separate crisis opened the opportunity for change. Likewise, the relationship between the global North and the global South was altered during the period of the Cold War through the introduction of the Marshall Plan (Kunz 1997, 162). The west's fears of a communist expansion incentivized them to become a bit more responsive to the demands and concerns of developing nations. An example of this change in North and South relations was the introduction of modern foreign aid policies. During this era of global turmoil, the United States began to offer financial aid to foreign nations to discourage them from transitioning to communism (American Foreign Relations). A third example of this historical trend is evident in the effects of the 2008 financial crisis. The devastating impact of this recession caused the governments of many nations to question the efficacy of neoliberal policies. To combat this alarming occurrence, nations, including the United States, ignored the *laissez faire* advice of neoliberalism and began to spend more on programs designed to support their citizenries and economies (Savage 2018, 5). According to the musings of David Koss, a researcher from the University of Massachusetts, this

crisis may encourage future changes within the world's current economic structure (Koss 2009, 316).

The important takeaway here is that a large-scale global event is a prerequisite to changing the world power structure or the nature of North and South relations. History has shown that a rise in state capitalism is not an event capable of modifying the world order. Many nations have been adopting state capitalist policies since the 1960s, but no major alterations to the current international system can be attributed to this development. Overall, a rise in state capitalism does not possess the size or universal impact that an event would need to open up the possibility of changing the international order.

To conclude, a rise in state capitalism would have a minimal effect on the future of the North-South dialogue because it does not possess the characteristics needed to change the global structure of power. Making changes to any established system can be difficult but making changes to the international system can be near impossible. Making progress requires a perfect storm of conditions, including an impactful global crisis and a respected nation with sufficient influence in international institutions. State capitalism fails to help a nation achieve any of these necessary qualifications. Its innate ability to bring about issues including corruption and stagnant innovation diminish a nation's reputation. International institutions are unwilling to give growing nations greater representation, which renders the power gained from state capitalist policies inefficacious. Finally, even if a nation were to miraculously avoid these pitfalls, their transition to state capitalism would not be an event impactful enough to restructure the international order.

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