



Reassessing State Capitalism in the New World Order: The Case of India

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Abstract

This study re-examines the origins, conceptual foundations, and theoretical dimensions of state capitalism within the shifting contours of the contemporary global order. It positions India's state-owned enterprises (SOEs) as pivotal instruments of national development, countering the dominant narrative that privatization is the universal remedy for inefficiency. By tracing the historical trajectory and policy frameworks underpinning state capitalism, the paper demonstrates how Indian SOEs have sustained capital investment, safeguarded energy security, and generated significant fiscal dividends, particularly in sectors where private capital has been hesitant to participate. Drawing on comparative global models and debates, the analysis identifies the structural and contextual factors that shape the resilience and viability of state capitalism in volatile geopolitical and economic environments. The evidence underscores that, under statist strategies, Indian SOEs have consistently delivered superior outcomes relative to private sector counterparts, reaffirming their relevance in an era defined by uncertainty, multipolarity, and systemic transformation.

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Reassessing State Capitalism in the New World Order: The Case of India

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Abstract

This study re-examines the origins, conceptual foundations, and theoretical dimensions of state capitalism within the shifting contours of the contemporary global order. It positions India's state-owned enterprises (SOEs) as pivotal instruments of national development, countering the dominant narrative that privatization is the universal remedy for inefficiency. By tracing the historical trajectory and policy frameworks underpinning state capitalism, the paper demonstrates how Indian SOEs have sustained capital investment, safeguarded energy security, and generated significant fiscal dividends, particularly in sectors where private capital has been hesitant to participate. Drawing on comparative global models and debates, the analysis identifies the structural and contextual factors that shape the resilience and viability of state capitalism in volatile geopolitical and economic environments. The evidence underscores that, under statist strategies, Indian SOEs have consistently delivered superior outcomes relative to private sector counterparts, reaffirming their relevance in an era defined by uncertainty, multipolarity, and systemic transformation.

Keywords: *State Capitalism, Global Order, Theoretical Foundations, Comparative SOE Models, Governance and Policy, SOE Performance in India*

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1. Introduction

The twenty-first century has been marked by profound shifts in the global economic and political landscape, often described as the emergence of a “New World Order.” Multipolarity, geopolitical realignments, energy crises, climate challenges, and the retreat of unrestrained globalization characterize this order. In such a turbulent environment, the state's role in economic management has re-emerged as a central theme of scholarly and policy discourse. State capitalism, defined by extensive state involvement in ownership, investment, and regulation, has become an essential framework for understanding how nations navigate uncertainty and secure strategic interests. In this context, multipolarity and geopolitical volatility favor the SOE model because it allows the state to maintain direct control over strategic supply chains and energy security, mitigating risks that private capital may be hesitant to absorb.

India's experience illustrates this dynamic vividly. The mixed economy model introduced in 1951 institutionalized the coexistence of public and private sectors, with state capitalism and SOEs forming its two foundational pillars (Muralidharan, 2024). Despite the liberalization reforms of 1991, state capitalism and SOEs remain integral to India's developmental trajectory. The government has noted that aggregate dividends from SOEs represent a consistent fiscal inflow, which in the context of long-term stability, compares favorably to one-time receipts from privatization (GoI, 2024), underscoring their enduring relevance in sustaining

capital investment, ensuring energy security, and stabilizing fiscal performance.

State capitalism may be broadly understood as an economic system in which the state controls a significant share of production through centralized management, labor regulation, and capital accumulation, while simultaneously engaging in commercial, profit-oriented ventures that often compete with private firms. In this model, ownership, markets, and state authority converge. Scholars have described its manifestations in diverse terms, ranging from “red capitalism” and “progressive capitalism” to “leviathan ownership” and “platform capitalism” (Musacchio & Lazzarini, 2012; Sperber, 2019). Its intellectual roots lie in both doctrinaire and pragmatic traditions (Megginson, 2017), with five major forces driving its rise: intensifying global division of labor, technological modernization, industrial upgrading, capital concentration, shifts in the global economic center of gravity, and the expansion of debt and financial linkages.

Globally, state capitalism manifests in varied forms. In China, the state dominates strategic sectors through large SOEs and sovereign funds, cultivating “national champions.” In France, the tradition of dirigisme continues to shape industrial policy through state-backed enterprises and politically guided investments. Even in the United States, often portrayed as the bastion of free markets, the government has intervened directly in strategic industries, such as acquiring stakes in semiconductor firms to secure supply chains. These examples highlight that even liberal economies resort to

state capitalism when national security and competitiveness are at stake.

India has witnessed a resurgence of state capitalism in recent years, as the government reasserts its role in directing capital, shaping industrial policy, and forging alliances with major business groups. This reflects developmental priorities, political legitimacy, and global trends where states actively mobilize resources to manage crises and strategic sectors. The expansion of SOEs, sovereign wealth funds, and development banks, alongside renewed industrial policy and economic nationalism in advanced economies, signals that state capitalism is regaining prominence in the international political economy. Within this evolving global order, India's SOEs exemplify how statist strategies can deliver resilience, growth, and fiscal dividends, challenging the assumption that privatization is the universal solution.

2. Literature review

State capitalism, defined by active government intervention in economic activity, has been central to India's developmental trajectory. The mixed economy model adopted in 1951 institutionalized the coexistence of public and private sectors, with SOEs serving as the backbone of strategic industries (Muralidharan, 2024). Amsden (2001) highlights how late-industrializing economies, including India, leveraged SOEs to achieve industrial growth and technological catch-up. Kornai's (1979) distinction between resource-constrained and demand-constrained systems remains relevant, as Indian SOEs often operate within policy environments shaped by fiscal priorities and political mandates. Bremmer (2009, 2010) situates India's economic policies within the broader global rise of state capitalism, underscoring its systemic importance.

The debate over privatization continues to be contentious. Bator (1958) emphasized the inevitability of market failures, providing a rationale for state intervention. La Porta and López-de-Silanes (1999) found that privatization often improves profitability and efficiency, but frequently through socially costly measures such as layoffs and wage reductions. Goswami (2003) and Khanna (2015) traced India's gradual reforms, noting shifts in corporate governance and accountability. The *Public Enterprises Survey* (2023) provides empirical evidence of SOE resilience, while OECD (2015, 2017) benchmarks governance frameworks against global standards. NITI Aayog's *National Monetization Pipeline* (2021) illustrates fiscal strategies that balance privatization with state-led investment.

Musacchio and Lazzarini (2014) outline varied models of state capitalism, many of which resonate with India's evolving public sector. Shleifer and Vishny (1998) critique inefficiencies in state ownership, while Trivikram (2021) aligns SOEs with India's self-reliance agenda. Chang (2002) and Mazzucato (2013) argue that state intervention has historically driven industrial upgrading and innovation, challenging neoliberal critiques. Evans (1995) introduces the concept of "embedded autonomy," where states balance bureaucratic independence with societal embeddedness, a framework particularly relevant to India's SOEs. Rodrik (2004) emphasizes institutional diversity in industrial policy, suggesting that state capitalism offers viable alternatives to market orthodoxy.

Globally, state capitalism manifests in diverse forms. In China, SOEs dominate strategic sectors, guided by state priorities in energy, technology, and infrastructure (Lardy, 2019). In France, dirigisme continues to shape industrial policy through state-owned champions. Even in the United States, often portrayed as a bastion of free markets, state intervention in strategic industries, such as

semiconductor supply chains, illustrates the pragmatic embrace of state capitalism (Sperber, 2019). These examples underscore that state capitalism is not an anomaly but a recurring strategy in the New World Order, where states mobilize resources to manage crises and secure competitiveness.

India's resurgence of state capitalism reflects developmental priorities, political legitimacy, and global trends. The expansion of SOEs, sovereign wealth funds, and development banks, alongside renewed industrial policy and economic nationalism in advanced economies, signals that state capitalism is regaining prominence in the international political economy. Within this evolving context, India's SOEs exemplify how statist strategies can deliver resilience, growth, and fiscal dividends, challenging the assumption that privatization is the universal solution.

3. Private Enterprises vs SOEs Performance

The performance of SOEs has long been debated, with critics often asserting that their returns on investment lag behind private firms. This perception, however, overlooks the structural and policy contexts within which SOEs operate. Historically, SOEs were tasked with social obligations, subsidized pricing, and welfare commitments that constrained profitability. Today, the public sector has evolved into a more dynamic, market-oriented, and globally competitive entity. Reforms such as withdrawal of budgetary support, market-based resource mobilization, strategic alliances, restructuring, closure of non-viable units, corporate governance reforms, and exposure to competition have reshaped SOEs into modern enterprises (CIER, 2000; Rath, 2022).

Empirical evidence challenges the assumption of SOE underperformance. The Centre for Industrial and Economic Research concluded that SOEs' profitability is comparable to, and in some cases exceeds, that of private enterprises. Since the 1990s reforms, SOEs have consistently improved financial parameters, with the government recovering more than its capital investment through dividends, interest, and taxes. Moreover, SOEs have balanced shareholder value with broader developmental commitments, addressing welfare and social dimensions (Ram Mohan, 2005). Gupta (2024) further observes that even in deregulated regimes, SOEs have adapted effectively, underscoring their resilience.

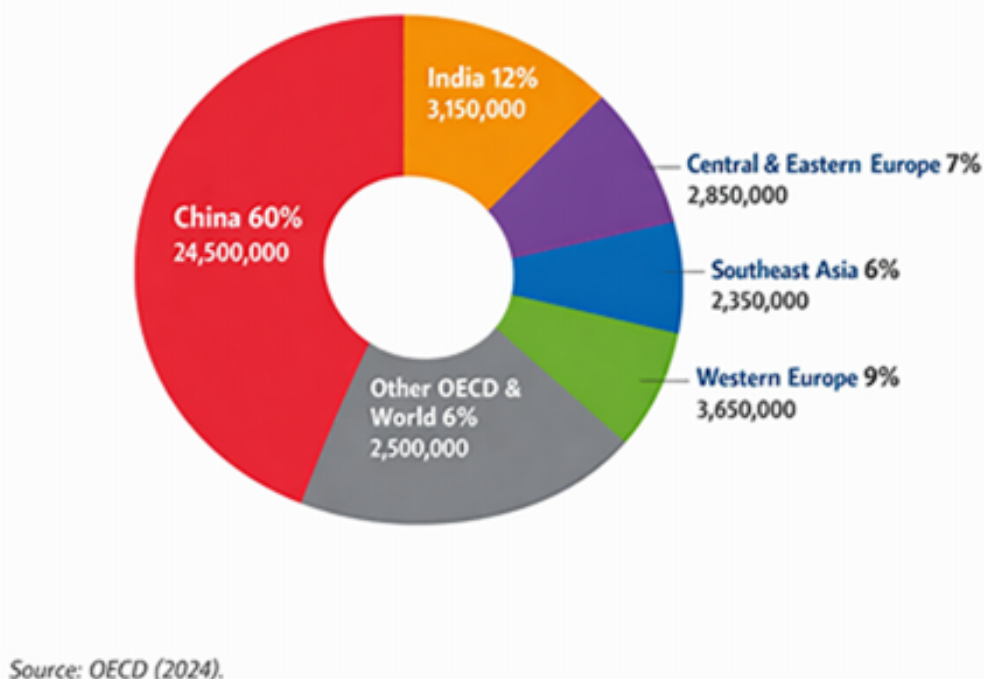
Comparative studies reinforce this perspective. Research across regions shows that privatized enterprises have not consistently outperformed their pre-privatization benchmarks (African Association for Public Administration and Management, 1987; Vickers & Yarrow, 1991; Kikeri & Nellis, 2002; Nellis, 1989; Mishra, 2009; Ensslin, Welter, & Pedersini, 2022). In India, the private sector has remained cautious in capital-intensive domains such as energy, infrastructure, and defence, leaving SOEs to shoulder the burden of national development. This is evident in the performance of Central Public Sector Enterprises (CPSEs), which, despite lower returns on assets due to their massive asset base, demonstrate comparable or robust performance in return on sales, business cost trends, climate action, and statutory CSR obligations.

In the current global context, SOEs are not merely economic entities but strategic instruments of resilience. Their role in energy security, climate change mitigation, and infrastructure development aligns with national priorities in a volatile geopolitical environment. CPSEs such as NTPC, IOCL, and GAIL have spearheaded renewable energy transitions, while others like BEL and BHEL contribute to defence self-reliance. Their embedded sustainability mandates, corporate governance reforms, and statutory CSR obligations position them as agents of inclu-

Table 1. CPSEs vs Private Sector: Capital-Intensive Sectors

Parameter	CPSEs (Aggregate Trends)	Private Sector (Capital-Intensive Only)	CPSEs Advantage?	Source (CPSEs)	Source (Private Sector)
Return on Sales (ROS)	~5-7% (NTPC, IOCL, GAIL, BEL)	~6-8% (L&T, Tata Power, JSW Energy, Adani Infra)	Comparable	Department of Public Enterprises (2025). <i>MoU Ratings FY24: 39 CPSEs Rated 'Excellent'.</i> Indian Masterminds	Fortune India (2025). <i>Fortune India 500 Rankings</i>
Return on Assets (ROA)	~2-4% (due to high asset base in infra, energy, defence)	~3-5% (Tata Steel, Adani Ports, Reliance Infra)	Slightly Lower	Department of Public Enterprises (2024). <i>Public Enterprises Survey 2022-23</i>	Fortune India (2025). <i>Enterprise Profiles and Sectoral Performance</i>
Annual Growth	Sales ~6-8% CAGR (energy, infra, logistics CPSEs)	~7-9% CAGR (private infra, power, logistics firms)	Comparable	Press Information Bureau (2025). <i>Forward Looking Survey on Private Sector CAPEX</i>	Economic Times (2025). <i>Strategic Private Investments in Infrastructure</i>
Business Trends	Cost Stable/declining due to scale and GeM procurement, though offset by administrative overheads	Volatile, rising raw material and staffing costs	Strategic advantage in procurement	Press Information Bureau (2024). <i>GeM Procurement Efficiency Report</i>	Financial Express (2025). <i>RBI Manufacturing Sector Margin Trends</i>
Corporate Governance	Mandatory DPE guidelines, board diversity, SEBI compliance	SEBI-driven, variable compliance in mid-tier firms	Comparable	Department of Public Enterprises (2023). <i>Corporate Governance Guidelines</i>	Drishti IAS (2024). <i>Corporate Governance in India</i>
Climate Change Action	Large-scale renewables (NTPC, SECI, IREDA), PSPs, coal gasification, geothermal pilots	Active in EVs, solar, and hydrogen, but on a smaller scale	Better in scale	Ministry of Coal (2024). <i>Diversification of Coal CPSEs</i>	World Economic Forum (2025). <i>Climate Action Platform</i>
CSR Spending	₹4,911 crore in FY24; 19% YoY growth; 56.7% by top 10 CPSEs	₹30,000+ crore in FY24; 84% of national CSR by private firms	Statutory obligations	India CSR (2025). <i>CSR Spending by CPSEs Hits ₹4,911 Crore</i>	Business World (2025). <i>India's CSR Spending Rises 13% to ₹34,909 Crore</i>
Sustainability Focus	Embedded in MoUs, DPE mandates, SCOPE-GIZ training, and climate co-benefit metrics	Increasing ESG adoption is fragmented across sectors	Stronger mandate	SCOPE (2025). <i>Climate Action Portal</i>	EY-Parthenon (2025). <i>Green Manufacturing in India</i>

sive growth. By contrast, private enterprises, while agile, often prioritize shareholder value over broader developmental goals and remain hesitant in sectors requiring long-term capital investment.

**Figure 1.** Distribution of SOE employment by country/region

4. Global Landscape of State Ownership

State ownership continues to be a defining feature of the global economic architecture. The *OECD Factbook 2024* reaffirms the scale, diversity, and strategic importance of state-owned enterprises across both developed and emerging economies (OECD, 2024). China remains dominant, accounting for nearly 60% of global SOE employment, with over 24.5 million workers and a portfolio valued at USD 29 trillion. India ranks second, employing approximately 3.15 million people and maintaining an SOE portfolio valued at USD 338.5 billion, underscoring its pivotal role in the global state-capitalist framework. Western Europe, Central and Eastern Europe, Southeast Asia, and other OECD regions collectively account for the remaining 40% of SOE employment, with notable concentrations in France, Brazil, and Korea.

Sectoral distribution reveals that network industries, electricity, gas, transport, telecommunications, and postal services dominate the SOE landscape, representing nearly 70% of employment and half of total SOE value. India, alongside Italy, Korea, Norway, and France, contributes significantly to the state-owned electricity and gas sector. Its financial sector SOEs also rank among the top five globally outside China (OECD, 2024). Despite decades of privatization, SOEs remain central to national strategies, particularly in essential services and strategic industries. Their persistence reflects not only efforts to address market failures but also deliberate state-led positioning in global markets. In Europe, SOEs have expanded internationally, while in liberal economies such as the United States, strategic interventions, such as public stakes in semiconductor firms, demonstrate the enduring relevance of state capitalism (Sperber, 2019).

The continued prevalence of SOEs, even in competitive sectors, suggests that governments worldwide have opted to retain control over key enterprises, often resisting full privatization due to political, developmental, and security considerations. This global pattern reinforces the argument that state capitalism remains a dominant and adaptive model in the evolving New World Order (Bremmer, 2010; Musacchio & Lazzarini, 2014).

For India, the global resurgence of state capitalism carries important policy implications. First, India must recognize its comparative advantage in maintaining robust public sector enterprises in capital-intensive and strategic domains such as energy, infrastructure, and defence. Rather than pursuing blanket privatization, policymakers should adopt a differentiated strategy that strengthens governance, transparency, and competitiveness within SOEs while selectively divesting non-strategic assets, such as those in the hospitality, consumer goods, or specific manufacturing segments, to unlock capital for strategic priorities.

Second, Indian SOEs should be positioned as instruments of industrial policy and global competitiveness. This requires deeper integration with climate action goals, digital transformation, and regional development strategies. Third, the government should leverage SOEs to crowd-in private investment, particularly in sectors where risk aversion or long gestation periods deter private capital. Finally, India must continue to align its SOE governance with international best practices, ensuring that public enterprises remain accountable, efficient, and responsive to national priorities.

In sum, India's SOEs are not relics of the past but dynamic institutions capable of shaping the country's economic future. Their strategic deployment within a recalibrated model of state capitalism offers a viable path toward inclusive growth, resilience, and global relevance.

5. State Capitalism with Reference to SOEs in India

The trajectory of India's SOEs must be understood within the broader framework of industrial policy and developmental planning that followed independence in 1947. At that time, rapid industrialization was seen as essential not only for economic growth but also for national autonomy. A series of Industrial Policy Resolutions and Five-Year Plans (FYPs) laid the foundation for India's mixed economy, where public and private sectors coexisted under a democratic framework.

The Industrial Policy Resolution of 1948 provided the first blueprint for industrial development, building upon the pre-independence "Bombay Plan." It divided industries into categories reserved for the public sector, those open to private participation, and those designated for joint ownership. This framework was reinforced by the Industries (Development and Regulation) Act of 1951, which empowered the government to regulate licensing and industrial growth. The Industrial Policy Resolution of 1956 then articulated a socialist pattern of society as the national objective, placing "core industries" firmly under public sector control while allowing private participation in non-core areas.

Planning institutions further entrenched state capitalism. The Planning Commission, established in 1950, became the central body for economic planning. Through successive Five-Year Plans beginning in 1951, India pursued industrialization with objectives of self-reliance, social justice, and poverty alleviation. The First Plan emphasized infrastructure and agriculture, while later Plans expanded into heavy industries, energy, and defence. Although the Five-Year Plan exercise was discontinued after the Twelfth Plan (2012-2017), the legacy of centralized planning continues to shape SOE policy.

The public sector was consistently positioned as the driver of strategic industries. SOEs were tasked with building capacity in energy, transport, defence, and infrastructure sectors where private capital was either reluctant or unable to invest. Over time, SOEs became instruments of both economic growth and social policy, balancing commercial objectives with developmental mandates.

In recent years, policy has evolved to reflect new priorities. The New Public Sector Policy of 2021 introduced a classification of SOEs into "strategic" and "non-strategic" categories (Trivikram, 2021). Strategic SOEs were retained in sectors critical to national security, energy security, and essential infrastructure, while non-strategic SOEs were earmarked for privatization or closure. Importantly, exemptions were made for not-for-profit enterprises and those serving vulnerable populations, reaffirming the developmental role of the public sector.

This policy framework illustrates the adaptive nature of state capitalism in India. While liberalization and privatization have reshaped parts of the economy, SOEs remain central to strategic planning and national development. Their role in capital-intensive sectors, fiscal stability, and social welfare underscores the enduring relevance of statist strategies in India's economic model.

6. SOE Policy Enunciated in the Industrial Policy Resolutions and the National Common Minimum Programme

India's industrial policy framework has consistently emphasized the centrality of the public sector in driving national development. The Industrial Policy Resolution of 1948 explicitly designated the public sector as the primary engine of growth in "core industries,"

while leaving “non-core industries” open to both public and private participation. This early articulation established the principle that strategic sectors would remain under state control, thereby laying the foundation for the subsequent Industrial Policy Resolution of 1956. The 1956 Resolution reinforced this vision by expanding the scope of public sector dominance, identifying industries that would eventually evolve into SOEs.

The government’s role was not limited to ownership but extended to initiating new projects and shaping industrial expansion. While the private sector was expected to complement state initiatives, the public sector was entrusted with spearheading industrialization in areas critical to national security, energy security, and infrastructure development. This statist orientation reflected the broader developmental priorities of post-independence India, where industrial policy was closely tied to the objectives of self-reliance, social justice, and poverty alleviation.

Policy evolution continued into the twenty-first century. The New Public Sector Policy adopted in 2021 marked a significant recalibration of SOE governance (Trivikram, 2021). It introduced a classification system that divided SOEs into “strategic” and “non-strategic” categories. Strategic SOEs were retained in sectors deemed vital to national interests, such as defence, energy, and essential infrastructure, while non-strategic SOEs were earmarked for privatization, merger, or closure. Importantly, the policy exempted certain categories of enterprises, including not-for-profit organizations and SOEs serving vulnerable populations or developmental roles, thereby reaffirming the social dimension of state capitalism.

This framework illustrates the adaptive nature of India’s SOE policy. From the early Industrial Policy Resolutions to the contemporary National Common Minimum Programme and the 2021 reforms, the public sector has remained a cornerstone of India’s economic model. While privatization has reshaped parts of the economy, SOEs continue to play a decisive role in strategic sectors, balancing commercial objectives with developmental mandates. Their enduring presence underscores the resilience of state capitalism in India’s policy architecture.

Following the evolution of India’s public sector policy, from the Industrial Policy Resolutions of 1948 and 1956 to the New Public Sector Policy of 2021, the financial performance of SOEs provides concrete evidence of their enduring relevance. The macro-financial profile of Central Public Sector Enterprises (CPSEs), as reported in the latest *Public Enterprises Survey 2024-25*, highlights their role in sustaining capital investment, generating fiscal dividends, and contributing to national development. Table 2 below captures the aggregate position of SOEs as of March 31, 2025, offering a snapshot of their operational scale, profitability, and strategic impact.

The macro-financial profile of SOEs as of March 31, 2025, underscores their continuing significance in India’s developmental strategy. The data reveal several important trends:

- **Scale and Consolidation:** The number of operating enterprises declined slightly from 254 in 2023 to 248 in 2025, reflecting ongoing consolidation and restructuring. Despite this reduction, the overall capital employed rose to ₹39.72 lakh crore, indicating expansion in asset base and operational scale.
- **Revenue and Profitability:** Gross revenue from operations increased to ₹39.86 lakh crore, while net profit rose to ₹2.28 lakh crore. Profitability ratios, net profit to capital employed (5.74%) and net profit to gross revenue (5.72%), show marginal

improvement, suggesting stronger efficiency in resource utilization.

- **Fiscal Contribution:** Dividends grew to ₹1.12 lakh crore, with the payout ratio rising to 21.05%. This highlights the public sector’s role in generating fiscal returns for the exchequer, reinforcing the government’s position that SOE dividends outweigh privatization proceeds.
- **Investment and Market Presence:** Capital expenditure (CAPEX) rose to ₹2.95 lakh crore, underscoring the state’s emphasis on infrastructure and energy investments. Market capitalization also increased to ₹17.42 lakh crore, reflecting improved investor confidence in listed SOEs.
- **Employment and Efficiency:** Total employment contracted slightly to 0.14 lakh crore persons, consistent with rationalization and automation trends. While this indicates efficiency gains, it also underscores the need for balancing productivity with social obligations.
- **Strategic Role:** Foreign exchange earnings of ₹1.63 lakh crore highlight SOEs’ contribution to external trade and currency stability. Their presence in energy, defence, and infrastructure sectors continues to anchor India’s strategic autonomy.

Taken together, these indicators demonstrate that SOEs remain resilient and adaptive. They not only sustain capital investment and fiscal stability but also align with national priorities in energy security, infrastructure development, and global competitiveness. The data reinforce the argument that state capitalism, embodied in India’s SOEs, continues to be a viable and strategic model in the evolving global order.

Table 2. Macro-financial profile of SOEs as of March 31, 2025

Indicator	Value (2024-25)
Operating enterprises (in numbers)	248
Paid-up Capital	5.21
Total Financial Investment	26.84
Capital Employed	39.72
Gross Block	31.45
Gross Revenue from Operations	39.86
Depreciation	1.19
Gross Profit	3.48
Net Profit	2.28
Interest	1.42
Dividends	1.12
Profit of profit-making SOEs	2.59
Loss of loss-making SOEs	0.31
Profit-making SOEs (no.)	187
Loss-making SOEs (no.)	55
Net Profit from operations to capital employed ratio (%)	8.65
Net Profit to gross revenue from operations ratio (%)	5.72
Net Profit to capital employed ratio (%)	5.74
Dividend payout ratio (%)	21.05
Interest to gross revenue (times)	3.56
Market Capitalization	17.42
Foreign Exchange Earnings	1.63
CAPEX	2.95
Total Employment	0.14

Source: Department of Public Enterprises. (2025). Public Enterprises Survey 2024-25. Ministry of Finance, Government of India. <https://dpe.gov.in>

Note: 92.64 Indian Rupee=1 USD; 1 lakh crore INR $\approx$ 10.79 billion USD as on April 3, 2026.

7. Why Do SOEs Perform Well?

The classification of India's SOEs into Maharatna, Navratna, and Miniratna categories has significantly reshaped their autonomy and performance benchmarks. According to the *DPE Annual Survey Report 2024-25*, India currently hosts 14 Maharatna, 26 Navratna, 49 Miniratna-I, and 9 Miniratna-II enterprises. These entities operate across strategic domains such as mining, hydrocarbons, metals, electricity, financial services, manufacturing, telecommunications, transport, logistics, and construction. Much like China's "grasping the big and letting the small go" approach or Korea's "national champions" model, India's classification system empowers its largest SOEs with enhanced financial authority. Maharatna and Navratna enterprises enjoy independence in investment decisions, pricing, mergers and acquisitions, strategic partnerships, and organizational restructuring, thereby strengthening their competitiveness in global markets.

7.1. MoU-Based Performance Contracts

India's Memorandum of Understanding (MoU) system, introduced in the late 1980s and expanded during the 1991–92 liberalization reforms, has become a cornerstone of SOE performance evaluation. By FY2024–25, more than 100 SOEs had signed MoUs with the government, aligning their operational targets with national priorities. These contracts balance financial and physical indicators, enabling both ex-ante and ex-post-performance comparisons. The DPE notes that MoUs have enhanced accountability while granting SOEs operational flexibility, allowing them to adapt to market conditions without losing sight of developmental objectives.

7.2. Corporate Governance and Market Discipline

Corporate governance reforms have further strengthened SOE performance. As of March 31, 2025, 64 SOEs were listed on Indian stock exchanges, with a combined market capitalization of approximately ₹34.5 lakh crore, up sharply from ₹16.69 lakh

crore in March 2023. This surge reflects strong valuations in energy, defence, and infrastructure sectors. The government has also prepared a roadmap for listing an additional 170 non-financial SOEs. Listing has introduced market discipline, investor scrutiny, and compliance with the *Companies Act (2013)*. Since 2009, SOEs have voluntarily adopted governance frameworks, and in 2010, mandatory guidelines were introduced covering risk management, disclosures, audit committees, ethics codes, and board composition. These reforms have enhanced transparency, stakeholder confidence, and competitiveness. SOEs have also taken a leading role in corporate social responsibility (CSR), with growing emphasis on climate change mitigation and sustainability.

7.3. Self-Reliance and CAPEX Growth

National initiatives such as the Self-Reliant India Mission (Atmanirbhar Bharat) and Make in India have significantly boosted SOE performance. The *DPE Annual Survey 2024-25* reports that CPSEs achieved 57% of their FY2024-25 CAPEX targets by November 2024, reflecting a 24.2% increase compared to the previous year. SOEs are now central to CAPEX-intensive sectors, driving infrastructure modernization, energy diversification, and defence indigenization. Their role in climate action and CSR further enhances their developmental impact, positioning them as strategic instruments of resilience in the evolving global order.

7.4. Strategic Contributions of SOEs

The *DPE Annual Survey Report 2024-25* underscores the pivotal role of SOEs in sustaining capital investment and national development. CPSEs achieved 57% of their FY2024-25 CAPEX targets by November 2024, reaffirming their position as engines of industrial growth. In the energy sector, Maharatna enterprises such as ONGC, NTPC, IOCL, and GAIL have ensured energy security by diversifying into renewables, expanding domestic production,

and stabilizing supply chains amid global volatility. In defence, enterprises like HAL, BEL, and BEML have advanced indigenization, supported the *Make in India* initiative, and contributed to defence exports, thereby reducing reliance on imports and enhancing strategic autonomy.

The fiscal contribution of SOEs has also been remarkable. As presented in the Union Budget on 1 February 2026, CPSEs delivered record dividend earnings, surpassing government projections and providing a crucial stream of non-tax revenue. This dividend performance highlights their dual role as commercial entities and fiscal stabilizers. Looking ahead, the government's plan to monetize inactive public sector assets promises to unlock additional value, channeling resources into productive investments while retaining strategic control over core enterprises.

Together, these developments demonstrate that India's SOEs are not relics of the past but dynamic institutions capable of driving capital accumulation, securing energy supplies, strengthening defence capabilities, and contributing to fiscal resilience in the evolving New World Order.

8. Challenges Facing SOEs

India's SOEs face the dual challenge of aligning with national development priorities while remaining competitive in a rapidly changing global environment. Developing a unified vision, adapting to market dynamics, and fostering organizational resilience are critical but difficult tasks. Oversight from multiple authorities, siloed operations, weak internal controls, and uneven governance practices often undermine efficiency. Employee motivation also remains a persistent concern, with many enterprises struggling to cultivate a culture of excellence.

8.1. Governance Highlights

Robust governance structures are essential for the survival and expansion of SOEs. The *DPE Annual Survey Report 2024-25* highlights that fragmented reporting lines and overlapping mandates frequently compromise efficiency. In response, several SOEs have introduced "ownership management" reforms, professionalized boards, and clearer accountability mechanisms, aligning themselves more closely with market-oriented practices (KPMG, 2011). Yet, the absence of a unified ownership strategy continues to blur the distinction between ownership and management. Constitutional provisions treating majority-owned SOEs as state entities further burden them with non-commercial obligations, such as affirmative-action employment reservations. While socially justified, these mandates do not always enhance efficiency (Goswami, 2003).

Direct government interference without independent boards often results in bureaucratization, delayed decision-making, and politically influenced investments. The DPE notes that project commissioning delays and inflated costs remain common, with initiatives frequently launched without clear objectives or feasibility assessments.

8.2. Operational Constraints

Financial planning inefficiencies have left many SOEs overcapitalized, with easy access to government funding encouraging wasteful capital allocation and high capital-output ratios. Social overheads such as townships, schools, and hospitals continue to impose high costs. According to the *DPE Annual Survey Report 2024-25*, SOEs spent ₹8,412.56 crore on maintaining townships and welfare amenities in FY2023-24, up from ₹7,238.67 crore in

FY2022-23. While these expenditures improve the quality of life, they also strain public resources.

Manpower planning is another persistent challenge. The DPE report notes that several SOEs remain overstaffed relative to output, with recruitment practices lacking robust labor forecasting. Leadership continuity is undermined by prolonged vacancies in chief executive positions. Managerial efficiency is further hampered by excessive centralization, frequent transfers, and limited training in modern business practices. Weak incentive structures contribute to low morale, as performance is rarely rewarded adequately.

8.3. SOE Boards

To address governance constraints, the government has introduced reforms to strengthen board oversight. The Securities and Exchange Board of India (SEBI) extended its corporate governance code for listed companies to SOEs. Under Clause 49 of the SEBI Listing Agreement, listed SOEs must ensure that at least 50 percent of their boards comprise independent directors. They are also required to establish an Audit Committee and a Nomination and Remuneration Committee.

- The Audit Committee oversees financial reporting, ensures accuracy of statements, monitors internal controls and risk management systems, and reviews related-party transactions and statutory audit findings.
- The Nomination and Remuneration Committee identifies and evaluates candidates for board and senior management positions, determines compensation structures, formulates diversity policies, and assesses director and executive performance.

SOEs must also disclose related-party transactions, prohibit loans from holding companies to subsidiaries, and provide full transparency in financial dealings.

The Companies Act, 2013, further strengthens board responsibilities. Section 178(4) mandates procedures for director selection and remuneration. Section 134(3) requires boards to explain disqualifications noted in secretarial audit reports. Section 134(5) obliges boards to establish adequate compliance protocols and risk management systems, with annual reviews of internal financial controls. Boards may also engage independent experts to assess the adequacy of these systems.

8.4. Transparency

Transparency has become a cornerstone of SOE governance. The Right to Information Act, 2005 requires public agencies to disclose organizational information, including financial transactions, procurement processes, annual reports, press briefings, parliamentary questions, and HR practices. This has gradually shifted SOEs away from a culture of secrecy toward openness.

Additionally, Transparency International's Integrity Pact (IP), introduced in the 1990s, has been adopted to combat corruption in public contracting and procurement. By creating reciprocal contractual obligations, the IP enforces ethical behavior and enhances transparency in procurement processes.

8.5. Remuneration in SOEs

Remuneration structures remain a major challenge. The *OECD Ownership and Governance of SOEs 2024* report notes that executive compensation in SOEs is, on average, 40-60% lower than

in private firms, making it difficult to attract and retain top talent (OECD, 2024). In India, wage disparities between cadres have widened, fueling labor unrest and undermining morale. Government-imposed pay caps particularly constrain SOEs in globally competitive sectors such as energy, telecom, and defence, where private firms and multinationals offer significantly higher packages (Economic Times, 2024).

The *OECD Revised Guidelines on Corporate Governance of SOEs* (2023) recommend aligning compensation more closely with private-sector benchmarks to reduce disparities and strengthen governance. However, in India, remuneration patterns remain tied to civil service norms, limiting flexibility for performance-linked incentives. The *DPE Annual Survey Report 2024-25* confirms that remuneration inequities are among the top governance challenges, alongside overstaffing and bureaucratic delays. These disparities weaken competitiveness and raise broader governance concerns, as compensation directly affects accountability, efficiency, and the ability of SOEs to fulfill strategic mandates.

8.6. Empowerment of SOEs

Despite waves of disinvestment and privatization, SOEs remain integral to India's economy, though they face unique governance challenges. Accountability is diffused across a complex web of actors—management, boards, government directors, ministries, and the state itself—leading to overlapping mandates and delayed decision-making. This fragmentation undermines transparency and weakens corporate governance.

International experience offers lessons in empowerment. In China, the policy of “grasping the big and letting the small go” granted autonomy to large SOEs in investment, pricing, and restructuring, while smaller enterprises were privatized or merged. Korea's chaebol-linked SOEs were designated as “national champions,” receiving strategic support to expand globally, particularly in shipbuilding and electronics. France empowered its SOEs in energy and transport through partial stock exchange listings, which introduced market discipline while retaining state control.

India has taken steps in this direction by granting Maharatna and Navratna enterprises enhanced financial authority, enabling independent decisions on mergers, acquisitions, and strategic partnerships. The MoU system, modeled on French and Korean practices, has further empowered SOEs by aligning performance contracts with national priorities. However, compared to China's unified ownership model under the State-owned Assets Supervision and Administration Commission (SASAC), India's fragmented ownership structure continues to limit full empowerment. Strengthening ownership clarity, professionalizing boards, and aligning compensation with private-sector benchmarks, as recommended by the OECD, remain critical steps for transforming Indian SOEs into globally competitive national champions.

9. Conclusion

The contemporary geopolitical, social, and economic environment demonstrates that state capitalism, in varying forms, remains indispensable across the globe. Nations seeking to safeguard political integrity and economic sovereignty often rely on state capitalism as a mechanism for equilibrium and self-reliance (Bremmer, 2010; Musacchio & Lazzarini, 2014). In India, SOEs have played a decisive role in advancing socioeconomic development, acting as stabilizers during periods of volatility and promoting inclusive growth. As a mixed economy with sustained annual growth exceeding 8 percent, India requires a strong public sector

anchored by SOEs to preserve resilience and strategic autonomy (OECD, 2024).

The *Department of Public Enterprises Annual Survey Report 2024-25* highlights the robust performance of SOEs, with 39 CPSEs earning ‘Excellent’ ratings in MoU performance rankings for FY2023-24. Enterprises such as NTPC, GAIL, Indian Oil Corporation, and Bharat Electronics Limited excelled in project execution, innovation, and policy compliance, demonstrating resilience amid macroeconomic challenges. These achievements underscore the evolving efficiency and competitiveness of India's SOEs, reinforcing their role as key drivers of infrastructure modernization, energy security, and defence preparedness (DPE, 2025).

The fiscal importance of SOEs was reaffirmed in the Union Budget of 1 February 2026, which reported dividend earnings exceeding ₹1.15 lakh crore, surpassing government projections and strengthening their role as fiscal stabilizers (Ministry of Finance, 2026). Combined with their capital expenditure contributions and strategic presence in energy and defence, these results confirm that SOEs are not vestiges of the past but dynamic institutions shaping India's economic future. Furthermore, the government's plan to monetize inactive public sector assets promises to unlock additional value, channeling resources into new investments while retaining strategic control over core enterprises.

Looking ahead, SOEs must address challenges related to intensifying competition, technological modernization, regulatory compliance, innovation, environmental and social governance (ESG), and internationalization. Policy implications point to the need for strengthening strategic autonomy, expanding performance contracts, accelerating governance reforms, and embedding climate and CSR leadership more deeply into operational frameworks. By pursuing these reforms, India can transform its SOEs into globally competitive national champions, ensuring that state capitalism remains a viable and adaptive model.

Taken as a whole, India's state-owned enterprises embody both the strengths and challenges of state capitalism in the twenty-first century. Their resilience in capital investment, energy security, defence preparedness, and fiscal contributions demonstrates that SOEs remain indispensable to India's developmental trajectory. At the same time, governance reforms, remuneration restructuring, and empowerment strategies are essential to overcome persistent constraints and ensure global competitiveness. By balancing efficiency with inclusivity and strategic autonomy with international integration, India can position its SOEs as dynamic national champions. In doing so, the country not only secures its economic sovereignty but also affirms the continuing relevance of state capitalism as a viable and adaptive model in the evolving New World Order.

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