

INTERNATIONAL JOURNAL OF LEGAL STUDIES AND SOCIAL SCIENCES [IJLSSS]

ISSN: 2584-1513 (Online)

Volume 4 | Issue 1 [2026] | Page 286 – 297

© 2026 International Journal of Legal Studies and Social Sciences

Follow this and additional works at: <https://www.ijlsss.com/>

In case of any queries or suggestions, kindly contact editor@ijlsss.com

CRONY CAPITALISM OR STRATEGIC MARKETCRAFT? THE STATE – CORPORATE NEXUS IN CONTEMPORARY INDIA

-Swaraj Dash¹

ABSTRACT

This paper interrogates the character of India's state–enterprise interface in the post-2015 policy landscape, asking whether it is more accurately conceptualised as *crony capitalism*—where proximity to political authority enables preferential allocation of economic opportunities—or as *strategic marketcraft*—where the State deliberately engineers market structures to advance long-term developmental and systemic objectives. Drawing a principled analytical distinction between rent-seeking patronage and policy-driven market design, the study evaluates a series of high-salience corporate and financial episodes, including the IL&FS liquidity crisis and broader NBFC stress cycle, the Punjab National Bank fraud, the collapse of PMC Bank, and the market volatility surrounding the Hindenburg–Adani controversy. These events are assessed alongside contemporaneous reforms in insolvency resolution, financial sector supervision, disclosure norms, and enforcement architecture. The paper advances the proposition that India's contemporary trajectory is best described as conditional marketcraft. The State has actively recalibrated capital markets, insolvency frameworks, and financial intermediation channels to accelerate structural transformation and scale domestic champions. However, implementation asymmetries—manifested in episodic regulatory forbearance, opacity in decision-making processes, and uneven enforcement intensity—have, at times, generated concentrated advantages for select corporate actors. The core policy challenge, therefore, is institutional rather than ideological: safeguarding the State's strategic capacity to coordinate and shape markets while fortifying transparency, competitive neutrality, procedural integrity, and independent oversight. The legitimacy of developmental marketcraft ultimately depends on whether governance frameworks ensure that state-enabled value creation accrues to the broader economy rather than crystallising into private rents.

¹ II Year Economics Honours School of Economics, XIM University, Bhubaneswar, Odisha, India

Keywords: Crony Capitalism, Institutional Accountability, State–Corporate Nexus, Regulatory Governance. Strategic Marketcraft

1.0 INTRODUCTION

Since 2015 India has pursued an assertive development agenda—privileging infrastructure expansion, strategic manufacturing, and financial deepening—while simultaneously liberalizing and reforming regulatory frameworks. Academic defenders of an interventionist state argue that purposive policies are necessary for late-developing economies to coordinate investments and build capabilities (Rodrik, 2018). Critics counter that political proximity to economic power has produced favouritism—selective access to licenses, state contracts, finance, and regulatory forbearance—giving rise to what is commonly called crony capitalism (Kamble, 2023).

This study situates the foregoing debate within a series of consequential corporate events and regulatory recalibrations observed between 2015 and 2026. By examining prominent financial sector disruptions, enforcement responses, and structural reforms, the paper evaluates whether recent state action reflects principled market design or preferential allocation of advantage. The analysis proceeds on the premise that the character of state intervention is revealed not by policy declarations alone, but by the quality of institutional safeguards surrounding implementation.

The central proposition advanced here is that India presently practices what may be described as *conditional marketcraft*. The State has repeatedly acted to engineer market outcomes—whether by stabilising systemic institutions, restructuring distressed assets, incentivising strategic industries, or recalibrating supervisory frameworks—in pursuit of broader macroeconomic and developmental objectives. Yet the robustness of these interventions has varied. In environments where disclosure norms, procedural transparency, and independent oversight mechanisms are underdeveloped or unevenly enforced, state activism can become susceptible to influence, opacity, or regulatory accommodation.

The normative conclusion is therefore institutional rather than doctrinal. The appropriate response is neither wholesale retrenchment of the developmental state nor uncritical endorsement of expansive intervention. Rather, it lies in strengthening governance architecture so that market-shaping initiatives are anchored in competitive neutrality, rule-bound discretion, and credible enforcement. Marketcraft must be designed to deliver public value while remaining structurally resistant to rent extraction.

2.0 CONCEPTUAL DISTINCTION: MARKETCRAFT VS. CRONY CAPITALISM

In contemporary political economy scholarship, *marketcraft* characterises the State not as a passive umpire but as a deliberate designer of economic architecture. It envisions public authority as structuring incentive systems, calibrating regulatory frameworks, and constructing institutional arrangements that enhance market coordination and long-term value creation (Rodrik, 2018). Properly conceived, such intervention is neither arbitrary nor opaque; it is expected to operate within pre-defined rules, subject to disclosure obligations, competitive neutrality, and mechanisms of review. Its legitimacy rests on procedural integrity and measurable public purpose.

Crony capitalism, in contrast, describes a configuration in which economic advantage is mediated by political access rather than market discipline. Under such conditions, allocation of state resources—whether licenses, procurement contracts, credit flows, or supervisory indulgence—occurs through non-transparent channels that privilege connected actors. The resulting distortions stem less from state activity per se and more from the absence of institutional distance between political authority and private beneficiaries (Kamble, 2023).

The operational distinction between these models lies in the quality of procedural safeguards. Marketcraft relies upon structured discretion embedded within accountable governance systems; cronyism flourishes where discretion is personalised, oversight is attenuated, and competitive processes are compromised. Yet the boundary is inherently permeable. Even well-intentioned market design can drift toward preferentialism when transparency norms, disclosure standards, and enforcement autonomy are insufficiently institutionalised. The durability of marketcraft, therefore, depends on its insulation from capture.

3.0 CASE EVIDENCE (2015–2026)

3.1 IL&FS AND THE CONSTRAINTS OF IMPLICIT STATE BACKSTOPPING (2018 AND SUBSEQUENT DEVELOPMENTS)

The 2018 failure of Infrastructure Leasing & Financial Services (IL&FS) marked a pivotal stress event in India's financial architecture. As a conglomerate operating at the intersection of infrastructure financing, structured credit, and public–private partnerships, IL&FS occupied a central node within debt markets. When repayment obligations were unmet, contagion effects transmitted rapidly across

banks, mutual funds, and non-banking financial companies (NBFCs), revealing the degree of intermediation exposure embedded in the system (Harvard Kennedy School, 2023).

The episode surfaced two structural vulnerabilities. First, entities positioned as quasi-systemic intermediaries in infrastructure development may operate under perceived expectations of sovereign stabilisation. Such implicit assurances, even when never formally articulated, can attenuate market discipline and incentivise aggressive balance-sheet expansion. Second, deficiencies in group-level oversight—including complex subsidiary layering, related-party transactions, and limited transparency in consolidated risk reporting—can obscure underlying fragilities until liquidity pressures crystallise into solvency concerns.

In response, authorities intervened to reconstitute governance structures, strengthen supervisory surveillance, and recalibrate resolution mechanisms. Board restructuring, enhanced disclosure expectations, and tighter scrutiny of asset–liability mismatches formed part of the corrective agenda. Subsequent analytical assessments have emphasised that state participation in long-horizon infrastructure finance—properly understood as developmental marketcraft—must be accompanied by clearly defined risk allocation frameworks, enforceable accountability norms, and credible resolution pathways (Harvard Kennedy School, 2023).

The IL&FS disruption thus underscores a broader institutional lesson: when market-shaping initiatives are not supported by rigorous transparency and contingent discipline, the perception of implicit support can generate moral hazard. Effective marketcraft in capital-intensive sectors requires structured intervention that is rule-bound, conditional, and reversible, rather than assumed to be open-ended.

3.2 THE PUNJAB NATIONAL BANK FRAUD AND DEFICIENCIES IN SUPERVISORY CONTROLS (2018 → PROSECUTION PHASE)

The 2018 fraud at Punjab National Bank (PNB), centred on the unauthorised issuance of Letters of Undertaking (LOUs) in favour of private jewellery exporters, represents a significant breakdown in internal risk governance and supervisory oversight (Central Bureau of Investigation [CBI], 2021). The mechanism relied upon the circumvention of core banking safeguards through the misuse of the SWIFT messaging system, enabling contingent liabilities to be created without corresponding entries in the bank’s internal records. The misconduct, facilitated by collusion between certain bank officials and external counterparties, remained undetected over an extended period, thereby amplifying exposure.

From a governance perspective, the episode illuminated structural weaknesses in control architecture rather than merely episodic misconduct. Segregation-of-duties protocols, reconciliation processes between messaging platforms and internal ledgers, and supervisory review mechanisms proved insufficiently robust. The absence of real-time verification and cross-platform integration allowed contingent obligations to accumulate beyond prudent risk thresholds.

The public and institutional response was swift and enforcement-driven, including criminal investigations, asset attachment proceedings, and strengthened compliance directives (CBI, 2021). Regulatory authorities subsequently emphasised enhanced due diligence standards, tighter audit scrutiny, and improved technology-enabled monitoring within public sector banks.

Importantly, the PNB case demonstrates that governance erosion does not always originate from overt political patronage or macro-level policy bias. Regulatory capture can manifest horizontally—through operational complacency, weak compliance culture, and breakdowns in internal accountability—thereby enabling private appropriation of institutional resources. While prosecutorial action addressed immediate culpability, durable mitigation depends on systemic reform: integrated technology controls, board-level risk oversight, stronger whistleblower channels, and an institutional culture that aligns incentives with fiduciary responsibility.

The episode thus reinforces a central thesis of this paper: the credibility of state-led market coordination ultimately hinges on the integrity of the governance infrastructure within regulated entities themselves.

3.3 PMC BANK AND GOVERNANCE VULNERABILITIES IN THE COOPERATIVE BANKING SEGMENT (2019 → REGULATORY INTERVENTION)

The 2019 crisis at Punjab & Maharashtra Co-operative (PMC) Bank brought into sharp focus structural fragilities within India's cooperative banking framework. The institution's exposure to a single dominant borrower—Housing Development and Infrastructure Limited (HDIL)—was allegedly masked through irregular account classification and reporting practices, thereby distorting the bank's risk profile. When the true extent of concentration risk surfaced, regulatory authorities imposed withdrawal restrictions and initiated supervisory action to stabilise the institution and protect depositors (Nayak, 2022).

From a governance standpoint, the episode revealed deficiencies in internal audit independence, board-level oversight, and real-time supervisory intelligence within the cooperative banking perimeter.

Unlike larger commercial banks subject to more intensive monitoring, cooperative institutions historically operated under a hybrid regulatory architecture that diluted accountability lines and delayed corrective intervention. The resulting depositor distress underscored a central regulatory dilemma: how to reconcile community-based banking models with prudential standards appropriate for systemic stability.

The PMC episode demonstrates that concentrated lending, inadequate disclosure, and weak control environments can precipitate institutional failure with reputational spillovers extending beyond the immediate entity. Effective marketcraft in financial intermediation therefore requires a dual architecture—preventive supervision capable of identifying emerging risk concentrations, and credible resolution mechanisms capable of mitigating contagion once distress materialises. Absent these safeguards, state intervention becomes reactive rather than anticipatory.

3.4 HINDENBURG–ADANI (2023) AND THE GOVERNANCE POLITICS OF DISCLOSURE (2023–2025)

The publication of a 2023 report by Hindenburg Research concerning the Adani Group triggered significant market volatility and catalysed a broader debate on disclosure adequacy, related-party transactions, offshore ownership structures, and the robustness of India’s securities oversight regime. The episode combined short-seller allegations with sharp equity price corrections and a highly charged political discourse that alternately framed regulatory scrutiny as either insufficiently rigorous or politically motivated (Reuters, 2024; Associated Press, 2024).

Subsequent reviews, including regulatory assessments and court-monitored inquiries, examined whether existing disclosure norms and surveillance mechanisms were effectively enforced. By mid-2025, certain findings reported in major financial publications indicated limited substantiation for specific market-manipulation allegations, while leaving broader governance questions under continued examination (Financial Times, 2025; Reuters, 2025). These developments intensified debate regarding evidentiary thresholds, investigatory transparency, and the communication strategies of enforcement agencies.

From a corporate governance perspective, the episode highlights the complexity of supervising diversified conglomerates operating through cross-border subsidiaries and layered holding entities. Divergent definitional standards for related-party transactions, evolving global disclosure expectations, and asymmetries in information access can complicate regulatory assessment. Moreover, when enforcement narratives become politicised—portraying scrutiny as either an attack on a

nationally significant enterprise or as evidence of regulatory inertia—agencies risk operating under heightened reputational and political pressure.

The institutional takeaway is clear: durable market confidence requires robust disclosure mandates, enhanced cross-jurisdictional information exchange, and regulatory bodies insulated from partisan framing. Marketcraft, if it is to retain legitimacy, must be anchored in transparent processes and demonstrable impartiality. Where enforcement capacity is perceived as contingent or politically filtered, the credibility of both markets and the state’s coordinating role is diminished (Reuters, 2024; Financial Times, 2025).

4.0 INSTITUTIONAL REFORM AND THE EVOLUTION OF THE INSOLVENCY FRAMEWORK (IBC AND REGULATORY ARCHITECTURE)

The enactment of the Insolvency and Bankruptcy Code (IBC), 2016 marked a structural inflection point in India’s credit architecture. By introducing a creditor-driven, time-bound resolution mechanism, the framework sought to recalibrate bargaining power between debtors and lenders, improve recovery outcomes, and embed market discipline within corporate restructuring processes (Insolvency and Bankruptcy Board of India [IBBI], 2025). In design, the IBC represented a paradigmatic example of market-shaping reform: it aimed not merely to resolve distress but to alter behavioural incentives *ex ante* by signalling credible consequences for default.

Since its inception, the regime has undergone iterative refinement through statutory amendments, regulatory circulars, and jurisprudential clarification. Institutional capacity-building—spanning insolvency professionals, adjudicatory benches, and information utilities—has been central to operationalisation. These reforms have targeted procedural bottlenecks, enhanced creditor coordination through committee-of-creditors mechanisms, and strengthened oversight of resolution applicants (IBBI, 2025; recent empirical scholarship).

Notwithstanding these advances, implementation asymmetries remain. Resolution timelines have, in practice, frequently exceeded statutory benchmarks. Jurisdictional overlaps—particularly involving tax authorities and sector-specific regulators—have generated uncertainty regarding priority claims and asset treatment. Additionally, the absence of a fully operational cross-border insolvency framework has constrained the regime’s effectiveness in cases involving multinational asset structures (research literature, 2025). These frictions underscore the distinction between legislative ambition and institutional execution.

Parallel regulatory recalibrations have complemented insolvency reform. The Securities and Exchange Board of India (SEBI) has expanded market surveillance tools and disclosure mandates to strengthen capital market integrity. The Reserve Bank of India has intensified supervisory scrutiny over banks and systemically important non-banking financial companies, incorporating risk-based supervision and enhanced stress-testing protocols. Corporate reporting standards have also evolved, with greater emphasis on related-party disclosures and governance transparency.

Where these reforms have deepened procedural clarity, strengthened monitoring, and institutionalised contestability, they have functioned as safeguards against rent extraction. Conversely, where enforcement has appeared uneven or subject to reputational and political cross-currents, governance deficits have persisted (IBBI, 2025; Economic & Political Weekly, 2023). The broader institutional lesson is that marketcraft attains durability not solely through legislative innovation, but through credible, even-handed enforcement capacity capable of sustaining investor confidence across cycles.

5.0 ANALYTICAL SYNTHESIS: CONDITIONAL MARKETCRAFT AND INSTITUTIONAL ARCHITECTURE

A consolidated review of the episodes examined—spanning infrastructure finance disruption, internal control failures in banking, cooperative sector fragilities, capital market turbulence, and insolvency regime evolution—does not support a binary characterisation of India’s political economy. The evidence does not reveal a system uniformly organised around patronage, nor does it reflect a seamlessly technocratic developmental state. Instead, the post-2015 trajectory reflects a blended institutional configuration: an assertive state engaged in deliberate market construction, operating within governance structures that are still uneven in procedural depth.

Over the past decade, public authority has actively recalibrated economic architecture—reassigning risk allocation in infrastructure finance, reinforcing creditor primacy through insolvency reform, expanding capital market surveillance, and incentivising industrial scale. These measures demonstrate purposive coordination rather than passive regulation. However, the long-term credibility of this developmental posture has hinged less on policy vision and more on the strength, neutrality, and operational reliability of institutional safeguards.

This paper therefore advances the concept of *conditional marketcraft*. The formulation recognises that state intervention has been strategic and frequently aligned with structural transformation objectives, yet its legitimacy and effectiveness remain contingent upon procedural insulation. Where governance

frameworks are robust, intervention enhances coordination and stability. Where transparency is limited or oversight fragmented, similar interventions risk generating distortions.

The case evidence illustrates this conditionality. In the IL&FS episode, insufficient visibility into consolidated exposures and the absence of credible unwind mechanisms created expectations of implicit support that diluted market discipline. The PNB fraud demonstrated how weaknesses in internal compliance ecosystems can erode systemic trust without any overt policy bias. The PMC Bank crisis exposed supervisory blind spots within the cooperative banking perimeter. The Hindenburg–Adani episode underscored how complex disclosure structures and politicised narratives can intensify reputational risk for regulators and markets alike. Across these instances, corrective state action followed stress events; preventive architecture proved comparatively underdeveloped.

The operative distinction between developmental marketcraft and crony capitalism is therefore institutional rather than ideological. Marketcraft depends upon structured discretion—policy flexibility exercised within pre-defined rules, monitored by autonomous regulators, and subject to review. Cronyism emerges when discretion becomes personalised, transparency diluted, and enforcement uneven. Importantly, the policy instruments themselves—credit guarantees, industrial incentives, restructuring frameworks, regulatory exemptions—are normatively neutral. Their character is determined by governance design and enforcement credibility.

Three institutional determinants shape whether intervention remains developmental or drifts toward preferentialism:

1. *Transparency Intensity*: Comprehensive disclosure standards, integrated supervisory data systems, and mandatory public reporting reduce asymmetry and limit opportunities for selective advantage.
2. *Enforcement Autonomy*: Regulatory bodies must operate with technical competence, operational independence, and reputational insulation sufficient to withstand political and market pressures during high-stakes scrutiny.
3. *Competitive Neutrality Mechanisms*: Procurement processes, licensing regimes, and financial allocations must preserve contestability to prevent state-enabled expansion from entrenching incumbency absent demonstrable performance metrics.

The evolution of the Insolvency and Bankruptcy Code (IBC) framework illustrates how institutional maturation can progressively embed market discipline when adjudicatory capacity strengthens and creditor coordination improves. Conversely, instances of supervisory delay or calibrated forbearance reveal how even well-conceived reforms can lose normative force if implementation is inconsistent.

The appropriate policy response is not the retrenchment of state-led coordination. India's ongoing transformation—across infrastructure networks, digital public infrastructure, manufacturing ecosystems, and financial intermediation—requires capital mobilisation and sequencing beyond decentralised market incentives alone. However, developmental ambition must be matched by institutional architecture capable of constraining capture.

Conditional marketcraft becomes durable only when interventions are:

- *Rule-bound*, with clearly articulated eligibility standards, disclosure thresholds, and sunset clauses;
- *Continuously supervised*, through independent audit, real-time monitoring, and transparent reporting;
- *Judicially reviewable*, preserving avenues for legal challenge and quasi-judicial scrutiny; and
- *Reversible*, ensuring that temporary support does not crystallise into structural advantage.

The legitimacy of India's state–corporate interface during 2015–2026 will ultimately be assessed not by the scale of intervention, but by the integrity of its governance scaffolding. Marketcraft can function as an engine of structural transformation; yet without disciplined procedural safeguards, the boundary separating coordinated development from rent concentration remains institutionally porous.

5.0 Interpreting the pattern: conditional marketcraft

The episodes above display three recurring features:

1. *Purposive state action*: India's state has actively shaped markets—through infrastructure finance, preferential procurement, and industrial policy—intending to accelerate structural transformation. These are marketcraft impulses: steering capital, enabling scale, and backing strategic projects (Rodrik, 2018).
2. *Procedural and capacity gaps*: Transparent allocation, rigorous disclosure, and well-resourced, politically insulated regulators are uneven. Where allocation rules remained discretionary or disclosure thresholds were low, private actors exploited gaps to capture advantage (Kamble, 2023).
3. *Political narratives and rescue politics*: Firms that are highly interconnected with public projects or finance may develop implicit expectations of state support in distress, creating moral hazard. Episodes like IL&FS forced ad hoc rescues and political debates about bailouts, underlining the difficulty of combining large state involvement with discipline.

Together these features produce *conditional marketcraft*: the state aggressively tries to make markets but institutional weaknesses allow private rent-seeking to flourish episodically. The result is neither pure

cronyism (where capture dominates) nor purely benign marketcraft; rather, a hybrid in which both the logic co-exist and interact.

6.0 POLICY PRESCRIPTIONS

To preserve the developmental virtues of marketcraft while minimizing capture, the following institutional reforms are recommended:

1. *Rule-based allocation with ex ante criteria:* Convert discretionary grants of scarce assets into transparent, competitive mechanisms with clearly published selection criteria and independent oversight. Judicial and policy moves after earlier allocation scandals illustrate the value of auctions and rule-based design.
2. *Stronger, granular disclosure regimes:* Mandate more detailed and timely disclosures on related-party transactions, complex cross-border structures, and corporate group exposures. Regulators need legal and technical tools to trace cross-border flows.
3. *Independent, well-resourced regulators:* Enhance the operational independence and resources of SEBI, RBI, and sectoral supervisors to investigate complex cases without political interference. Resourcing should include forensic accounting, cross-border cooperation, and rapid information-sharing.
4. *Conditional state support with credible exit:* When the state supports strategic firms, financial assistance should be policy-clearly conditional, time-bound, and include clawback provisions and transparent performance milestones to prevent open-ended moral hazard.
5. *Improved resolution architecture:* Continue to strengthen the IBC ecosystem—speeding up tribunals, streamlining interactions with sectoral regulators, and building cross-border insolvency tools—so distressed firms can be resolved without implicit bailouts.
6. *Public procurement reform:* Use procurement to promote competition and small and medium enterprises while codifying safeguards to prevent single-vendor lock-ins.

7.0 CONCLUSION

Between 2015 and 2026 India has pursued an assertive strategy of state-led market shaping while simultaneously confronting episodes of governance failure and alleged capture. The evidence points to *conditional marketcraft*: purposeful governmental attempts to steer markets that have sometimes blurred into opportunities for private rent extraction because of weak procedural safeguards and

politicized narratives. The answer is not to demonize state involvement wholesale, nor to accept capture as inevitable, but to redesign the institutional scaffolding—disclosure, contestability, independent enforcement, and conditionality—so that marketcraft can deliver public value without feeding cronyism.

REFERENCES

- Central Bureau of Investigation. (2021, February 25). *Press releases: PNB fraud investigations and chargesheets*. <https://cbi.gov.in/press-detail/NDM5NA%3D%3D>
- Financial Times. (2025, September). *Adani bails 'clean chit' from Indian regulator over Hindenburg probes*. <https://www.ft.com/content/e4c125e2-fdc0-4d93-bb05-be79cc798ed8>
- Harvard Kennedy School. (2023). *The past & future of Indian finance* [Working paper]. https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/212_AWP_final.pdf
- IBBI (Insolvency and Bankruptcy Board of India). (2025). *IBC's role in building a resilient economy* [Policy brief]. <https://ibbi.gov.in/uploads/whatsnew/36cd64096137032d8a949419ec1e85b9.pdf>
- Kamble, K. S. (2023). The anatomy of crony capitalism in India. *Economic & Political Weekly*, 58(20). <https://www.epw.in/journal/2023/20/commentary/anatomy-crony-capitalism-india.html>
- Nayak, S. (2022). *A crisis that changed the banking scenario in India: The PMC Bank case* [Case analysis]. *Journal / Repository*. <https://pmc.ncbi.nlm.nih.gov/articles/PMC9420178/>
- Reuters. (2024, January 3). *Explainer: India's Adani vs Hindenburg Research — what you need to know*. <https://www.reuters.com/world/india/adani-vs-hindenburg-research-what-you-need-know-2024-01-03/>
- Rodrik, D. (2018). *Marketcraft: How governments make markets work*. Oxford University Press