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State entrepreneurialism in urban China: a critique of the neoliberal city

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Abstract

This chapter challenges the thesis of the neoliberal city in the Chinese context and argues that although the concept of neoliberalization captures the nature of market-orientation in the post-reform China, the notion of "the neoliberal city" does not pay sufficient attention to actors and agencies in this process. Here, the state, in particularly local state officials, is a major operator of land-centered market development. The chapter reviews the historical origin of market transition and sees it as a response to a series of economic, social and political challenges at the end of state socialism. Then, the instrument of market has been selected as a "spatial fix" to combat these challenges. This mission involved a wide range of market reform initiatives. We argue that these initiatives require more state involvement rather than less, because this is a complex project. The state intervention is not a roll-out action to remedy the market defect, but rather using its dominant position to expand capital accumulation and achieve the political career of local leaders under the mechanism of elite selection and promotion. Therefore, state entrepreneurialism is similar to urban entrepreneurialism in the sense that both recognize boosterism practices but the former emphasizes the state rather than the city as the actor.

Introduction

China has experienced rapid economic growth in the last three decades and is resilient in the aftermath of the global financial crisis. There are debates about whether China adopts a distinctive approach to economic development, i.e. a Chinese development

model. While the so-called “Beijing Consensus” (Ramo, 2004) might exaggerate the distinctiveness of the Chinese development approach, many scholars recognize the Chinese characteristics of its development approach. The denomination is now commonly used to note the Chinese specificity, for example, “neoliberalism with Chinese characteristics” (Harvey, 2005), “capitalism with Chinese characteristics” (Huang, 2008), or simply “socialism with Chinese characteristics” (Lim, 2014). The Chinese scholar, Qin (2008: 22) suggests that “both Left and Right economists in the West ... wanted to use rapid economic growth in China to approve their theory. For the Left, they emphasize strong state intervention and for the Right they recognize the restrained welfare [for promoting economic growth].” He argued that they perhaps describe only one side of the coin. Strong state intervention co-exists with constrained social welfare. They are two aspects of Chinese regime of accumulation and related mode of regulation.

The rise of China has profound implication for the global economy and global capitalism. Its expanding production capacity, according to Hung (2008), has contributed to the “global over-accumulation crisis.” Li (2008) even argued that the rise of China might mean the demise of global capitalism. There are more criticisms in the West about the Chinese growth model. For example, Hart-Landsberg and Burkett (2006: 39) suggest that, “China is not an attractive model of development from a working-class perspective.” However, there are different views about the nature of Chinese development. For example, Arrighi (2007) suggests that China’s spectacular economic success and its ascent represent the development of the “noncapitalist market economy.” But Harvey (2005) and others argue that China may follow a neoliberal route. Walker and Buck (2007) provide a comprehensive account of market reforms taking place in Chinese cities and argue that these changes paved a way to neoliberal capitalism. He and Wu (2009) suggest that Chinese urban redevelopment is the frontier of neoliberalization. Lim (2010) notes variation in spatial practice, and Peck and Zhang (2013) believe that China represents a variegated capitalism. Wu (2010) argues that Chinese market reform may not follow a neoliberalism ideology but practically it uses the market approach to expanding its space of accumulation.

This chapter aims to understand China's specific development regime through reviewing the origin of market-oriented reform and its pathway through which a new space of accumulation has been created. We suggest that "state entrepreneurialism" emerges from deploying the spatial fix – a term initially developed by Harvey (1978), to cope with the constraint of accumulation. Although Harvey uses the term in association with the process of neoliberalization to describe the shift of capital from the primary capital circuit to the secondary circuit of the built environment and hence shift the constraint of over-accumulation to the future in spatial term, the spatial fix does not in itself mean neoliberalization. On the contrary, it may imply the state capacity to conduct the complex project of creating new spaces of accumulation. Following on this line of analysis, we may suggest that, faced with the new constraint brought about by the global financial crisis, China may see another phase of transition. The Chinese characteristics are not idiosyncratic practices resulted from an authoritarian state. They are logical developments to achieve the spatial fix so as to cope with the internal and external challenges. We maintain that while the research approach should be sensitive and specific to its context, the variegated forms could be subject to a more unified framework of analysis, namely the dynamics of accumulation and the regulatory form to support the structural coherence.

The understanding of 'state entrepreneurialism' has two pivotal premises: commodification and monopolization. The former refers to the formation of market methods, while the latter stresses the role of the state during the process of using market methods and the outcome of development. The thesis differs from the neoliberal city is that, although Chinese reform has witnessed commodification, the market does not dominate the outcome. The instruments provided through commodification are deployed to strengthen the position of the state rather than weakening it. From the historical perspective, it differs from classical account of neoliberalism in that neoliberalization in the Western countries occurred after a phase characterized by economic growth and the development of ambitious redistributive policies. Neoliberalization is to free the constraint on the market. In Chinese case, the refusal of the state to consider working classes as potential consumers is an important strategy of state entrepreneurialism which has an effect on the development of domestic consumption, but this has been possible due to the capacities brought about by export. The change in China is not a post-Keynesian shift but rather the creation of

market means to expand the space of accumulation. The spatial fix – using space to solve the problem of capital over-accumulation, is central to this state entrepreneurialism. In short, while China has seen selective neoliberalization, especially the deployment of market instruments in its development, the state is not invisible, which has led to combination of state and entrepreneurial behavior, known as ‘state entrepreneurialism’. This is in contrast to ‘urban entrepreneurialism’ or the neoliberal city because, as seen in the Chinese case, the city is not an independent actor or a firm in the market. The thesis of the ‘neoliberal city’ emphasizes scaling jumping and using the urban scale to promote market oriented behavior. While this has been seen in the Chinese case because the local municipal government is a main representational form of state entrepreneurialism, the territorial form represents multiple scales beyond the city itself.

State entrepreneurialism in the process of neoliberalization

Instead of seeing the spread of neoliberalism as an ideology, it has been argued that it is more relevant to see how the process of “actually existing neoliberalization” (Brenner and Theodore, 2002) is shaped in different places. This later led to the notion of “variegated capitalism” (Peck and Theodore, 2007). More recent studies try to trace the spread and policy mobility to understand actual travel of neoliberalism from one place to another (Peck and Theodore, 2010) but this process of travel is unlikely to be straightforward adoption of the stated theory (Robinson, 2011). Here neoliberalization refers to the broad and variegated processes of marketization and commodification, and consequent adjustment of governance forms. Seeing neoliberalization as a process, there is reminiscence between neoliberalization in the West and marketization in China since economic reform. The central concern of this chapter is that whether this broad process of market transition has led to a specific governance form that could be called as the “neoliberal city”?

The seminal insight offered by Harvey (1989) that describes the transformation of Western urban governance from state managerialism to entrepreneurialism has been applied widely in Chinese studies (e.g. Wu, 1997; 2003; Chien, 2013). Chinese urban governance does show broadly similar spatial practices under the notion “urban entrepreneurialism” (Jessop and Sum, 2000) such as place promotion, city marketing,

boosterism (Berg and Bjorner, 2013). It is understandable that these practices have their contextual differences. To be accurate, Harvey (2005: 34) does note the distinctive feature of Chinese governance and suggests it is a hybrid outcome of “a particular kind of neoliberalism interdigitated with authoritarian centralized control.” Therefore, to him, China is a strange case of neoliberalism. The studies of the political economy from radical geographers pay their attention to state strategies, practices, institutions and policies. However, from an anthropological field, Ong (2007: 4) detects that “Harvey has trouble fitting China into his neoliberal template...China is deviant because neoliberal policies are combined with state authoritarianism.”

Following a Foucauldian approach to governmentality, Ong (2007) focuses on the technology of governance. She suggests that the State is highly visible in governance, but in terms of governance techniques, the State uses new approaches to achieve its control. Rather than focusing on the macroeconomic state institutions, the governmentality approach focuses on the practices of neoliberalism in everyday life, the relations between the governed and governing (Zhang and Ong, 2008, Yan, 2003; Hoffman, 2006). These studies describe how neoliberalism steps in the different spheres of social life through the promotion of freedom of choice and self-regulating subjects. They provide a vivid account of how marketization and its rationality affect everyday urban life. Although consumption in Chinese cities is nowadays more prominent and individualized (e.g. the end of collective housing consumption and the rise of residential preference, in the pursue, for example, the middle class dream, see Zhang, 2010), the consumer choice is not the primary objective in the market oriented reform. Related to the specific example of suburbia and middleclass residential preference, the lifestyle of suburbia is engineered and created as a tactic for real estate market (Wu, 2010). To cope with the market failure, the society initiated a self-protection movement, which is known as a ‘double movement’ countering marketization (Polanyi, 1944). Recent studies see the state action in this way (Wang, 2008). Zhang (2013) suggests that the party-state tried to re-regulate and get embedded in the society. However, in recent years the process of marketization has been fastened without political liberalization. In addition, the intraparty ‘double movement’ seen in the earlier years of market reform has been reduced, which led to unaccountable the party-state (Zhang, 2013).

Dated back to the early 1990s before the notion of neoliberalism was introduced into China studies, the concept of “local state corporatism” was proposed to describe the retreat of the state from direct economic decision making in the rural economy and subsequently the emergence of a class of entrepreneurial officials (Oi, 1992; 1995). The concept is useful in understanding fiscal decentralization in the 1980s and early 1990s, which created localism and entrepreneurialism. However, the trend has been reversed since the introduction of tax-sharing system in 1994, in which the central and local taxes are divided and collected separately, starting off fiscal recentralization (Oi et al, 2012). The ‘local state corporatism’ described the participation of local township and village officials in the small and medium business in their localities, which resulted into dual roles of officials and businessperson. The concept, however, was invented in the specific context of township and village enterprises (TVEs). It is limited in this sense because it is mainly about the local township and village scales. In the late 1990s, land and housing reforms created a buoyant real estate market and also transformed the city government. The involvement of city governments in real estate development or economic development in general is described by the notion of “urban entrepreneurialism” (Duckett, 2001; Chien and Gordon, 2008; Chien, 2013) and the “post-socialist entrepreneurial city” (Wu, 2003; Wu and Zhang, 2007). The later studies based less on the economic freedom created for the local officials but more on the governance of the municipal government, and the instrument of market operations (e.g. landed properties, development zones, and new urban status). The difference between local corporatism and state entrepreneurialism lies in that the former seems to pursue an economic benefit which allows the local officials and their TVEs to make a profit from economic development, while the latter is more strategically motivated and can pursue a strategy, discourse and action described by Jessop and Sum’s (2000) as the components of the “entrepreneurial city.” There might be an economic reason, but it could be more as a regulatory response to the changing accumulation process. The Chinese cities now competing through the preparation of “strategic plans.” The aim of plan-making is not to make a profit for government officials but rather creating a strategy to increase the tax base and strengthen the local economy, which is described by Jessop and Sum (2000) as the ‘entrepreneurial city’. For example, in the outer district of Beijing post-suburbia development has been driven by state entrepreneurialism (Wu and Phelps, 2011).

In contrast to what Peck (2013) describes in the development of American edge-cities as a space created by free market ethos which shows the features of “neoliberal suburbanism,” Wu and Phelps (2011) examined the strategic response of the municipality of Beijing to a shift of accumulation to suburban areas and creating a planned new town from a planned industrial park. The development corporation, which is actually an “investment branch” of the government, organized the development. The prominent feature of this postsuburban development is the “involvement of the State (national and municipal), in facilitating development and in ameliorating the subsequent implications” (p. 413), in contrast to the absence of strategic actions in the case of North American edge cities. The development corporation of post-suburban new town here as an investment branch of the municipal government, represents “territorialization of the municipal state in its city-region. In this outer suburban space, the relationship between the municipal government, district, town, and townships, is not only hierarchical but also horizontal: they are part of a patchwork upon which elements of postsuburban growth are taking place.” (p. 427).

The hierarchical government structure was transformed into urban governance in which the state actors engaged with the market through their entrepreneurial activities. In this particular case, the corporation organized land and industrial development. Entrepreneurial tactics are created in the Western market economies as a result from privatization. The regulatory state supports large corporations (Raco, 2014). The use of market device goes beyond the democratic process of the welfare state (Swyngedouw 2009). The decision is made by key leaders in a more localized development corporation.

The study of state entrepreneurialism thus is different from that of governmentality, because the attention is not paid to individualization, market choices and the market itself but rather to how these choices are structurally conditioned and made. In the case of Beijing suburban development, the development of edge-cities was not driven by the decision to move into the suburbs by rural migrants who work as industrial workers there. For the marginal social groups like rural migrants in urban China their choices are quite limited. The development of gated communities in the suburbs has not been decided by the market choice of new middle class consumers. Our attention

goes beyond the consumer society; even for the elite housing consumption, so as shown in Wu (2010) such a market has always been a subject of state regulation and market engineering. The state officials make the decisions as the ruling class.

The notion of “state entrepreneurialism” contains the process of commodification or marketization processes as its means to promote the formation and enlargement of market but does not aim to create the “neoliberal city” because the city itself is not an actor; behind commodification is the state project and a regulatory form of state control with the market instruments. We define the concept of ‘state entrepreneurialism’ as follows: through commodification and creation of market instruments, the state gives its officials, usually at the local level within a defined jurisdiction territory, the power and capacities to conduct economic development, for the prospect of their political career and economic growth. Consequently, the state is transformed into an entrepreneurial market agency – known as “state entrepreneurialism”. The activities by the state could be in coalition with the foreign investors or utilizing various competitive and mobile market agencies.

In the next section we begin to explain the historical origin and political foundations of this state entrepreneurialism.

Historical origin of market transition in China

The market-oriented reform in China does not originate in an ideological shift. On the contrary, it began with the disillusion of ideological constraint and political struggles. At the end of the Cultural Revolution (1966-76), the damage of political doctrine on the economy and people’s lives was widely recognized. The ethos at that time was to adopt pragmatism, known by Deng Xiaoping’s idea of using the market to promote economic growth, regardless whether the market mechanism was invented and practiced under capitalism. In other words, the market was introduced to supplement the rigid state economy; neoliberalism was not adopted as an alternative ideology. Rather, the party-state remained as the dominant regulator of the society. The market forces were used as a way to expand the space of capital accumulation. More specifically, through opening up China to the world, it was hoped that the overseas market could be utilized for the Chinese economy, and the foreign capital could be

introduced to develop such an export-oriented economy, which utilized Chinese cheap and surplus labor forces. At the time, successful East Asian economies provided persuasive examples for China to follow a similar road to achieve new industrialization.

In the West, neoliberalization is regarded as a departure from the model of Keynesian welfare state. In order to understand whether such a shift has occurred in China, it is useful to examine the characteristic of state governance prior to economic reform. Harvey (2005) suggests that the Chinese state is characterized as an “authoritarian state” that adopted neoliberalism. However, it is not entirely accurate to characterize the Chinese state as an authoritarian state because the term implies that the state and society are separate in existence and the state controls the society through coercion. This is a western dualist view of state-society. At the time before economic reform, the Chinese society was traditional – the state and society were not separable. Despite large-scale state-led industrialization, the Chinese society remained “primitive,” which was maintained and strengthened by work-units, urban-rural dualism, and low population mobility. The Chinese society maintained as a society of acquaintances. It is therefore better to refer it as a totalitarian society.

In this totalitarian society, the state was part of the whole system and had the responsibility to manage resource distribution. The social surplus was concentrated in the hands of the state, but there was no problem of legitimization because it was assumed that the social surplus was shared by the whole society, and the state was seen as the one who managed it for the society. The social entitlement was naturally acquired by the membership – being state employee. The state was regarded as benevolent rather than “dictatorial” because it bore the ultimate responsibility to look after the workers and staff. The city achieved a high level of “social cohesion” through residential social mix. The relationship of a work-unit director and a manual worker living in the same residential compound is comprehensive – rather than a limited responsibility of employer-employee. In this way, they were intertwined in social relation. The process of market transition started from seeing this organic relation between the state and market was problematic to economic growth.

The pathway to state entrepreneurialism

Market-oriented reform started in 1979 in China, initially from the rural area and then has shifted to the cities since 1984. In the 1980s TVEs experienced significant development triggering a sort of urbanization from below (Ma and Fan, 1994). After the setback of the 1989 events, the reform has been accelerated since Deng Xiaoping's southern China tour in 1992. In the 1990s, China saw large-scale industrial restructuring, the development of land market and housing commodification after the Asian financial crisis in 1997. Since China joined the World Trade Organization (WTO), the export-oriented economy has been accelerated, which became the distinctive feature of capital accumulation.

The policy of marketization and open-door to the global economy was adopted to create a new space of accumulation. This is effectively used as a spatial fix, a term initially developed by Harvey (1978) regarding to the capital circuits under capitalism. The spatial fix is deployed to transfer the capital from the primary circuit of production to that of built environment. So it is a change in spatial term. The issue of spatial term will be revisited later in this chapter. China had exhausted its space of capital accumulation under state socialism, with a relatively under-urbanized society and urban-rural divide. The percentage of urbanization was below 20 per cent before the reform (Zhou and Ma, 2003). Population growth created a potential workforce for labor-intensive industries but there was no market. The result was a large idle pool of production factors that could not be reintegrated into the further process of accumulation. In other words, accumulation reached its limit and there was no more space for accumulation. In rural areas, a large surplus population lived in a self-contained agricultural economy. State-owned enterprises were low efficient and required to accommodate a redundant workforce to maintain employment rates.

The regime of accumulation under state socialism was based on state ownership of production factors. The dominant form of governance was central planning and state-led industrialization. The mode of regulation was central planning, plus social reproduction achieved through state work-units. For example, like other socialist economies in Central and Eastern Europe, the state workplaces provided extensive social services such as nursery, schools, clinics as well as housing benefits. The funding was allocated to these work-units for social welfare. In a sense, the social

welfare system was operated by industrial sectors and workplaces. The state played a redistributive role (Nee, 1989). The economic strategy was capital intensive towards heavy industries. Because of collective consumptions organized by the state work-units, the state played a critical role in development. Because of the absence of the market, the state acted as the resource distributor. State-owned enterprises produced outputs without considering the constraint of the market, because the state ultimately took the products and allocated them. The constraint was the capital as there was an unconstrained thrust to expand without considering its market. This is in essence what Kornai (1992) called the “shortage economy.” Accompanied with the shortage of capital, there was over-accumulation (Wu, 1997) because capital could not be put into effective use to generate further accumulation and there was absence of such a market for the products (with the budgetary constraint, that is, buying these goods instead of obtaining them through allocation). The result was the idle resources and labor force.

The new space of accumulation began to appear to China when the international political environment, especially the China-US relation, improved. The Cold War confrontation began to ease off. The major Western economies adopted neoliberalism, emphasizing free trade, capital mobility, and the formation of global financial markets. These have created an opportunity for China. The Chinese state followed the successful experience of East Asian export-oriented economies (Yeung, 2000) and subsequently turned the historical legacies of social management and under-urbanization into competitive advantages to develop the world workshop. The expansion of new space of accumulation has been achieved through spatial fixes at two inter-related scales: the local scale of land-centered industrialization and the global scale of foreign investment and western consumer markets for labor-intensive goods.

The political economic foundation and characteristics of accumulation

The political economic foundation of state entrepreneurialism is the world workshop. This regime of accumulation is characterized by the significant role of export-oriented industries integrated in the global economy through global production network, trade and financial flows. The regime uses cheaper land resources and rural migrant workforce to develop production capacity for the global economy. It combines the

production factors of foreign capital, rural migrant workers, and land into a model of structural coherence (Figure 1).

This accumulation of regime is essentially represented by urban development under the world workshop. It is an urban model, as described by various chapters in this book about other countries. The structural coherence is embodied in the following features: First, in the sphere of economic activities, growth is driven by capital injection from foreign investment. The economy relies on the export-oriented manufacturing sector and targets at overseas markets. A high domestic saving rate provides additional source of capital formation.

<Insert Figure 1 about here>

Second, in terms of governance, the local government is the leading actor and actively attracts foreign investment through providing cheaper land. The legacies of State control over land and population have been turned into a competitive advantage. The local state ensures the abundant supply of land within its jurisdiction, and household registration maintains the rural migrants as guest workers status. The State does not take the responsibility of social reproduction, leaving migrants to find rental housing from local farmers. The education of migrant children and healthcare of migrants are left to the market. The dominance of the market in social reproduction might be a sign of neoliberalism. However, this situation is not so much the result of privatization of state welfare than the product of massive transfer to the cities of rural population previously outside the state realm and supported themselves through traditional forms of self-help and reciprocal relations. Here it is argued that market instruments are selected through the process of marketization. But this has not led to a neoliberal city because the precise form of urban governance in general and the exclusion of rural migrants from public services is not an outcome of the market itself.

Third, the state still maintains a social order. In the social sphere, the state still has a strong management capacity. On the one hand, labor mobility has been promoted through deregulation and dismantling rural organizations and the collective economy. The opening of the labor market in the city resulted in a significant size of migrant population in major cities (Wu et al, 2013). On the other hand, through labor

management and the prevention of collective bargaining through labor unions, and the delay in social provision, the labor cost has been kept at a lower level. The increase of labor cost lagged behind the pace of economic growth. As a result, the fast expansion of production capacities did not create an equivalent development of consumer markets. For the working population, production and consumption have been largely divorced; the labor force for production does not constitute the core consumer demand. The production is mainly for global markets.

Fourth, the world workshop is an open economic system. It relies on the inflow of capital and the outflow of commodities. In an enclosed economic system, the mismatch between consumption and production would lead to an immediate crisis of over-accumulation. However, with an open system, the gap has been shifted and transferred to the larger scale. Through the spatial fix, the capital logic is fulfilled within a global scale. As a result, the system requires capital flow and labor mobility, free trade and constrained social provision. These features could be regarded as coincidental with the idea of neoliberalism, or the latter derived from the former. The operation of the system does not necessarily follow this ideological imperative.

Fifth, fixed asset investment is a driver for economic growth. In this system, investment in production and assets is dominant, while household consumption occupied a less important position – a feature that has been widely noted. This means the local government has to constantly look for additional capital and in order to attract capital even adopt a strategy of “race to the bottom.” Through a tax system that divides the central and local taxes (Tsui and Wang, 2004), the revenue generated from land development became an important source of local public finance, while there is no property tax in China (Lin and Ho, 2005). Under the tax system, land income is not a budgetary item and belongs to the local government. The business taxes of real estate sector are also assigned to the local government. The Law of Land Management enacted in 1998 gives the monopolistic position to the local government to convert agricultural land to urban uses, which guarantees the profit from land development. The agricultural land acquired by the local state is much cheaper than the land price paid by competitive bidder for residential and commercial markets. To expand its land assets, the local state sets up various development zones (Hsing,

2010). Through bank loans based on the land as collateral, the local governments managed to obtain capital for infrastructure investment.

Finally in terms of spatial form and patterns, state entrepreneurialism produced scattered development and heterogeneous spatial pattern. The Chinese cities have been driven by the dual motivations of prioritizing industrial land supply and maximizing land revenue. Development zones for export-oriented manufacturing industries, industrial parks and new development areas became widespread. Because migrant workers are regarded as the workforce rather than consumers, they are “invisible” in the housing market, and mainly accommodated by renting housing from local farmers in the peripheral urban areas (Wu et al 2013). Industrial parks help the expansion of GDP volume, and new urban areas built in the form of new towns, shopping malls, or mix-use residential, commercial and office complexes aim to maximize the land income, which are mainly targeted at the urban middle class.

In short, the state deploys market instruments and methods to control and regulate the process of urbanization, and by doing so expanding the space of capital accumulation.

The “business model” of state entrepreneurialism

The “business model” of state entrepreneurialism focuses on attracting capital into the city under its jurisdiction. This includes foreign capital in export-oriented manufacturing industries as well as domestic capital in real estate such as shopping malls and residential projects. The process starts with the land, because the local government was not allowed to borrow money directly from the financial market until recently for some limited experiments. Through commoditizing the land, the local government injects the “fixed capital” into state-owned development corporations that are specialized in land development. These corporations are known as “local financing and investment platforms,” and use the land as collateral to borrow capital from the bank. The land banking is an effective way to initiate development. The corporation uses the capital to carry out infrastructure development and provides serviced land to the land market. When the land is sold in the land market, these investment platforms retain the profit and return the loans to the bank. Because the land value has been boosted through development and more importantly by the

increasing demand for land, these investment platforms could generate a significant income through land sales.

However, the ultimate goal of the business model may not lie in land income generation. The land development allows the local government to provide discounted land for manufacturing industries. The land provided for industries is much cheaper – and the land sale itself is not regarded as a good deal for the local government. The motivation of cheap land sale to industrial projects is to attract investment in a context of inter-city competition, to boost the GDP growth indicator as well as generating local taxes. The expansion of GDP increases the demand for residential and commercial properties and raises the land value, which in turn could generate profitable land sales in the commercial and residential land market. Further, the local government uses the land revenue to fund mega-urban projects and infrastructure to generate more development opportunities.

This business model involves complex capital flows and financial innovation. It targeted at the expansion of GDP, which is used as a performance evaluation criterion for the mayor and local party leaders, and at the same time the generation of local revenue. Land incomes are used to balance the local fiscal deficit because the local government undertakes more social responsibilities and sees the exceeding of expenditure over budgetary incomes. Further, the land incomes allow the local government to provide cheaper land for manufacturing industries regardless of the cost and “profitability” of land development. This is a land-centered finance model, which is the foundation of “state entrepreneurialism.”

How state entrepreneurialism maintains structural coherence

State entrepreneurialism managed to achieve structural coherence by maintaining the strength of central tax income and local expansion thrust at the same time. The regime capitalizes China’s comparative advantages of demographically-driven rise of the workforce in the 1980s and 1990s. By using foreign investment, the constraint of capital resource also has been eased. By granting the local government the role of market agencies and transforming their fiscal base into the one based on land

development, the approach effectively removed local resistance – NIMBYism, which is the main obstacle to development in Western market economies. The power of collective bargaining of India farmers is strong (Weinstein, 2008). This has been absent in the Chinese context until recently. Inter-city competition plus land revenue incentive have driven the local government to seek competitive advantages through their entrepreneurial endeavors. Rural and urban dualism is no longer a constraint on capital accumulation. In fact, the dualism is turned into a restraint on labor costs. The model has significantly expanded production capacity, leading to trade surplus and a significant increase in current account reserves. The municipal governments try to secure their territorial interests by administrative annexation and forming the city-regions (Ma, 2005).

In terms of tax income, the central government has seen a significant increase in its share, because it managed to leave the social expenditure to local governments while divide the central and local taxes. This creates a fiscal gap for local governments, which have to rely on tax rebate from the central government. The largest tax item, value added tax, is shared between central and local governments (so the system is known as tax-sharing system). The central government receives 75 per cent, while the local governments receive 25 per cent. Therefore, local economic development in principle automatically increases the fiscal capacity of the central government. The central government has the fiscal capacity to regulate local entrepreneurial agents and maintain a generally stable macroeconomic environment. Through this institutional design, the local industrial development increases the central fiscal capacity. Although local governments only retain 25 per cent of the value added tax, the purpose to develop industries is to increase the size of GDP and in turn raise the land value. Then, through the spillover effect on residential and commercial land, industrial development helps to generate land income. The local government retains all land values. The economic development can also increase commercial activities and the sale tax income, which belongs to the local governments (Tao et al, 2010).

Under the fiscal arrangement for state entrepreneurialism, the state's capacity to extract revenue is enhanced. The ratio of revenue income to GDP increased from 10 per cent in 1995 to about 20 per cent in 2007, and 23 per cent in 2012. In contrast, market oriented reform reduced the financial burden of the state. Commodification of

housing, medical care, and education reduced the social expenditure; in-kind housing allocation has been abolished since 1998; in medical care patients are required to make a higher contribution; and the proportion of private “out of pocket” contribution has increased from about 20 per cent in the 1980s to the highest figure of 60 per cent in 2002 (Wang, 2008); the gap was filled up by contribution from collectives. These are indications that market instruments have been used. But these instruments are deployed to enhance state capacities rather the other way around.

Politically, China’s economic decentralization did not lead to political devolution. The central government maintains its control over the appointment of local state officials and constantly reshuffles them into a different place through the performance evaluation mechanism. This evaluation and promotion system creates a “march of performance” (Zhou, 2008), in which local officials compete for GDP targets so as to gain political capital for promotion. The objective of expanding GDP is coincident with the enlargement of capital accumulation, and becomes a measurable performance indicator (Chien and Gordon, 2008).

State entrepreneurialism is also dynamic. It has been adjusted to maintain the structural coherence of the system. In the early stage of market transition, state entrepreneurialism was characterized by entrepreneurial practices and dismantling the state-owned enterprise system as well as its social provision based on workplaces. In the later stage since the mid 2000s after Hu Jintao and Wen Jiabao became the leader, there was a new trend of re-centralization of certain regulation functions to the central government, for example, land management and spatial plans. Developing social policies and provision has been a new attempt to cope with the problems created by excessive marketization (Wang, 2008). There is a temptation to interpret this change as a shift from roll-back to roll-out neoliberalism (Peck and Tickell, 2002). In the Chinese case, there is a sign of increasing state dominance in the later stage in the 2000s. But what has been rolled out is not neoliberalism (as an ideology), in which the state extends its institutions to support the formation and function of the market. The development in Chinese case is beyond the support for the market as seen in the transformation of urban planning. The rationale in city planning is ‘planning for growth’ but this is not equivalent to ‘planning for the market’ (Wu, 2015). Rather, the

intension there is to use planning for growth to legitimize state persistence, which is in opposite to neoliberalism.

State entrepreneurialism for operating the spatial fix beyond the national state

Since the 1970s economic globalization has overcome the geographical barrier to capital accumulation and expand its sphere across the boundaries of individual national states. Along with this process is the emergence of a set of political ideologies prioritizing the role of the market, known as neoliberalism (Harvey, 2005). This line of reasoning suggests that neoliberalism is derived from the operational needs to sustain capital accumulation regimes. In this chapter, state entrepreneurialism is shown as the key driver to achieve the spatial fix both at national and global scales. Previous discussions mainly focus on the pathway and historical origin of state entrepreneurialism. In this section, the role of state entrepreneurialism is highlighted with a global scale spatial fix. For China, this means to gear its surplus labor regime with Western credit-driven consumer regimes. The development is achieved through global financial and trade flows as well as global production networks.

Because of this geographical market expansion, a new space of accumulation has been created for the Chinese economy. The Chinese workforce that was left idle in the countryside in the socialist era became productive and integrated into the sphere of capital accumulation. It is possible not to adopt a policy of social provision, because the provision under Keynesian welfare state was used as demand management to offset the overaccumulation. In Chinese export-oriented development, this problem had not occurred till the recent crisis. This is because the products manufactured by workers are primarily targeted for themselves but exported to the global market.

On the other hand, with the Chinese surplus capital injected into the financial market of the US, the latter has been able to maintain a long-term low interest rate, loose credit provision and capital liquidity. Cheaper products and capital liquidity mean that the neoliberal approach had been able to resort to the market to a greater extent to fulfill social reproduction until the global financial crisis. The retreat of the state has not encountered an immediate social crisis or experienced a much-lessened impact

because basic consumption materials are available. The available cheaper living materials allow Western industrial economies to abandon labor-intensive production while maintaining low inflation. The Western economies then pursue more profitable financial and producer services. It was expected that the market should sort out housing and other social needs. For example, through complex financial manipulation, *ninja* households (with no income, no job, and no assets) managed to get mortgages to meet their housing needs. These are subprime mortgages. But without cheaper living materials imported from overseas, these households might have to find a living before they could consider the possibility of applying for subprime mortgages.

Through global trade and foreign direct investment, multinational companies gain the surplus value from the Chinese world workshop and reinvested in Chinese production. If these two systems were separated and independent, they would encounter immediate economic and social crises, essentially from “over-accumulation.” But by gearing these two systems together, a new space of accumulation has been created (Figure 2). As this chapter examined earlier, the spatial fix has been achieved in the Chinese system by incentivizing local states and transforming them into market agents. Underpinning the spatial fix is capital, resource, and labor mobility. However, this spatial fix has its own contradictions. The operation has effectively up-scaled local crises of over-accumulation into that of global over-accumulation. Hung (2008) argued that the rapid expansion of Chinese production capacities has been attributed to global over-accumulation. Through this perspective of spatial fix, the global over-accumulation can be seen as co-produced by over-accumulation tendencies in respective individual national regimes of accumulation. There had been a potential crisis prior to the development of global capitalism. But these crises were temporally deferred through spatial fixes in respective economies. Due to the contradictory nature of commodity production and capital accumulation, it is impossible to maintain an increasing level of surplus extraction in a sustained period without triggering an over-accumulation crisis in an enclosed economic system. In essence, the surplus capital extracted from production needs to be reinvested in production. In capitalism, this has to be achieved through consumption in the market. The realization of exchange value became impossible when commodities could not be sold because of the lack of demand or low

affordability. The Keynesian welfare state is regarded as the one using demand management approach, while the neoliberalization approach is to use the spatial fix to transfer capital into a different circulate or a different geographical space.

But as seen in Chinese case, this scale of operation is complex and had to resort to the local state institutions priori to the intention to adopt the neoliberal shift. It is therefore impossible to construct the “neoliberal city” because these local state institutions are the fundamental driver and operator together with multinational capitals for spatial fix. Therefore, it is unlikely that it could be “neoliberal” except the belief of cross-scale and translocal mobility.

<Insert Figure 2 about here>

Prospects of state entrepreneurialism: a possible return to Keynesian principles?

State entrepreneurialism, and more broadly the Chinese development model, is now facing some challenges. The global financial crisis has seriously undermined the “structural coherence” of this “workshop of the world,” which may trigger a new phase of transition. As described earlier, the first phase of market transition is the commodification of production factors, especially land and the labor force. Through combining these resources with foreign capital, the Chinese state created the workshop of the world. The state managed to separate itself from the society to enforce capital accumulation. The strong state capacity is a condition for this model, which retrenched the inclusive welfare of the state work-units, and maintained the low labor cost through keeping the pillar of population management – the household registration that divides the urban and rural status. These production factors – capital, land and labor – have been brought into the Chinese cities for global production. To achieve this objective, the state engineered a series of changes to incentivize the local governments and turn them into entrepreneurial agents. This could be understood as the transformation of the “mode of regulation” (Jessop, 2002) to confirm the export-oriented market economy now as the “regime of accumulation.” The development of market mechanisms was the dominant measures in the 1980s and the 1990s. However, since 2000 we have seen the effort to “roll out” necessary social policies so as to cope with the rising social tensions developed along with the commodification

and marketization previously (e.g. the laid-off workers in the late 1990s). Even this may sound similar to what has been described through the neoliberal city. That is, the strong State transformed local governments to create entrepreneurial and market oriented structures through first rolling back the welfare institutions and then reintroduced policies aiming at regulating the contradictions of the market economy. But the crucial difference is the Chinese approach did not aim to prioritize the market mechanism. The roll-out institutions did not support the market development but rather using the market as an opportunity to extend the space of capital accumulation. These institutions are pivotal for maintain the state capacities.

Now we foresee there might be the second phase of transition, which is to reverse the trend of benefit retrenchment. The weakening if not the demise of the world workshop regime means that the imperative for constraining the labor costs begins to disappear. In contrast, there is a need to boost domestic consumption. Practically, this means the expansion of the consumption capacity of the middle class. However, more recently the state has recognized the need to expand the overall consumption through a “policy of new urbanization.” This will try to “integrate rural migrants in the urban society” to increase the number of consumers. However, because rural migrants and farmers are marginal social groups in China, the migrant population may bear the cost of deindustrialization and the collapse of the world workshop. The economy may move towards a more capital-intense development approach (for example, through economic restructuring and high-tech development and innovation). Those who have already benefited in the earlier phase of market transition may continue to be the winner of economic restructuring (through enhanced human and social capital). If this happens, this will create a structured social exclusion, in which the majority of low-cost labor would be excluded from economic development. To summarize, there are two contradictory tendencies: in terms of governance, it will be no longer needed to maintain a low cost regime, which favors migrant workers. On the other hand, economic restructuring and upgrading may require a different cohort of workers with higher human capital but the existing workforce might not manage to keep up with the human capital improvement and thus be excluded from the labor market.

Another change may be the continuing development of the built environment through “new urbanization” as an outlet of capital accumulation to partially offset the

constraint of the global markets. Given trade infliction and imbalance, the pressure to identify new growth areas intensified. We have seen the return of state-owned enterprises and their roles in the stimulus package. But at the same time, the risk of bursting property bubbles and the debt of public finance are increasing. The Chinese state thus needs to pursue economic growth while managing the financial risk of property bubble. In the post-crisis era, state entrepreneurialism might have to reconsider its regulatory roles more than just flank market operations (Peck and Tickell, 2002). The state is required to face the double changelings: that is, managing the land and urbanization processes as well as millions of migrant population. But in order to boost domestic consumption, the state is now forced to roll out social policies and perform some basic social security and redistribution. It may even be asked more directly to provide social services, and to such an extent that it is questionable whether this is equivalent to the return to Keynesian principles. Chinese state entrepreneurialism may indicate some possibilities of and the reasons for adopting Keynesian principles in its ‘new development economics’ as predicted by Sheppard and Leitner (2010) some times ago.

Conclusion and discussion

This chapter traces the development of state entrepreneurialism through the pathway to the regime of the “world factory.” The consequential governance changes enable the formation of this model. This necessarily entails two contradictory aspects: entrepreneurial governance and enhanced state control. The development of the world factory represents the “spatial fix” both at the urban scale (through a shift of accumulation to the built environment) and at the global scale (through a shift of accumulation to global markets and capitals). The spatial fix is a complex project. The understanding of the concrete historical and social processes of this project has an implication for the notion of the “neoliberal city”: it is quite impossible and necessarily incomplete. This can be seen immediately from the recent global financial crisis, which imposed profound challenges for the Chinese model. There are signs that entrepreneurial governance is failing as shown in the alarming debt in the city of Dongguan (Xue and Wu, 2015). The world workshop model is being transformed by new initiatives to boost domestic consumption through a policy of “new urbanization.”

The neoliberal city remains a powerful metaphor for the market-oriented governance in the city. It describes well various pro-business practices as a transformation of governance (“rolling back” of welfare provision, Peck and Tickell, 2002) or individual consumer choice as a new base of governmentality (Zhang and Ong, 2008). The descriptive value is that the notion captures the novelty of market behaviors and governance changes, which are equally undeniable and have immense implication for peoples’ lives. The analytical added-value is it supplements the conventional description of the state about its entrepreneurial behavior as local competition state. The main shortcoming of the neoliberal city is that it is an ideal model, not actually existing, at least in the Chinese context. In this regard, the notion of neoliberalization is more appropriate in the sense it highlights a process rather than an end. However, examining the Chinese city shows that neoliberalization does not fit well in Chinese urban governance. The state dominates in governance, and plays a significant role in organizing and regulating economic development. The argument of ‘actually existing neoliberalism’ still assumes that the dominance of the state in market development is compatible with the roll-out neoliberalism. But the transformation of governance in China is not from a Keynesian type of welfare state to a neoliberal approach to giving the market a priority in the governance mechanism. It is more about the state selectively adopting market instruments to achieve its own goal for capital accumulation. Introducing market-oriented instruments was not originated from a convincing neoliberal ideology at the time. But rather, the market mechanism has been introduced to allow the state to cope with the lack of growth and related economic, social and political crises at that time prior to the reform. The market has a utilitarian function seen from the political pragmatism under Deng Xiaoping. That is, it could help to expand the sphere of capital accumulation: using overseas capital and market. The state then was directly involved in the market development, and in fact acted as market agencies. The market was believed as a method to legitimate the continuation of state power through a crisis-response-growth agenda. That is, the state is able to respond to a series of crises by demonstrating its leadership in a growth agenda. This led to the creation of “state entrepreneurialism.”

State entrepreneurialism has two institutional foundations: commodification and monopolization. Through commodification, resources such as land and labor forces

become transacted and mobile, and through monopolization the state can maintain its control over these resources to generate capital for its business model. As described earlier in detail, the business model requires the land to become a commodity, to be used as collateral to borrow loans to finance development, but at the same time remains as a target of regulatory control.

Such a business model creates inherent problems of social exclusion, environmental degradation, and disorderly development. The global financial crisis has exacerbated these problems. To cope with the crisis, the Chinese state increasingly looks for a spatial fix approach to offset the constraint of export and invests in the built environment as a way to expand investment outlets. The new urbanization movement has been deployed as a spatial fix. In the post-crisis era, the involvement of the state is justified by its necessity to cope with the impact of financial crisis. We may thus see the change in governance from initial deregulation to re-regulation. The state needs to fix the problems of “over-accumulation” and over-concentration of the wealth. Nevertheless, thanks to state entrepreneurialism, re-regulation would not be effective without constraining the state power. Under this business model, the city is seen an investment outlet. Using investment to boost growth inevitably led to over-investment, deeply embedded financial risk, and structural social exclusion. State entrepreneurialism is a hybrid model of market instruments and the developmental state. To challenge this growth-centered governance, it is not so much an issue of neoliberalism but rather the state power utilizing such a discourse and its business model.

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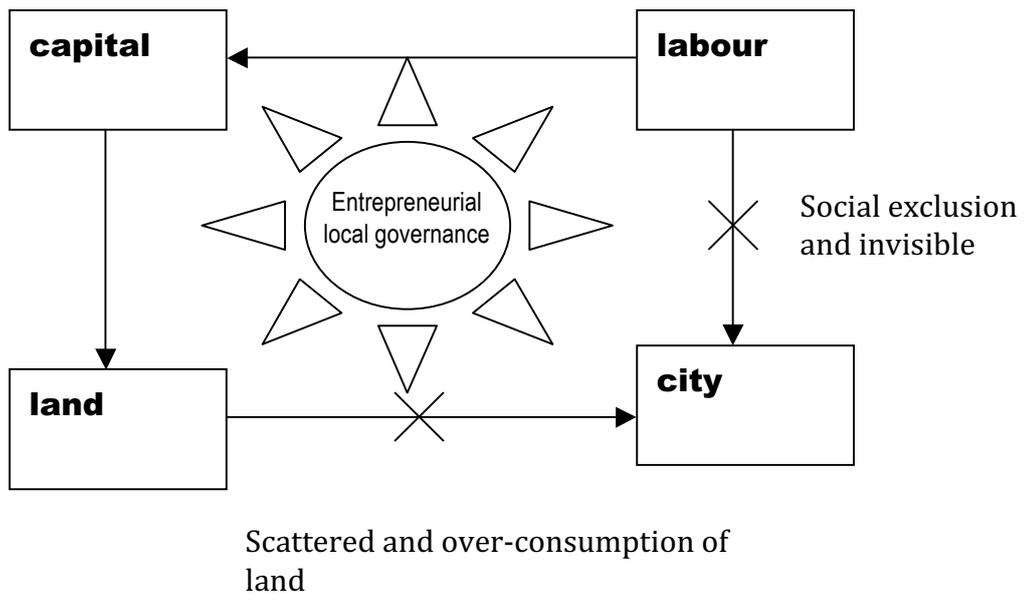


Figure 1 the dynamics of urban development under the world workshop

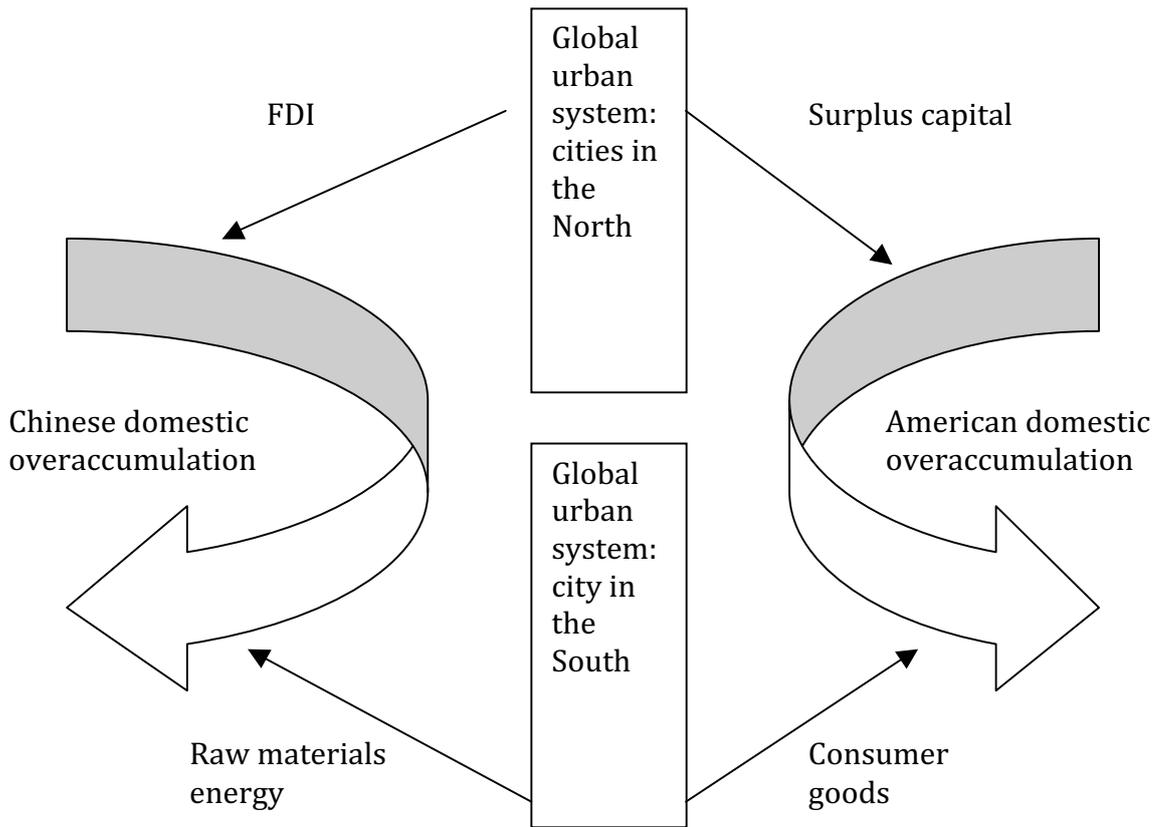


Figure 2 The development of the workshop of the world in China and its global 'spatial fix'