

The state acts through the market: ‘State entrepreneurialism’ beyond varieties of urban entrepreneurialism

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Abstract

This commentary reflects on varieties of urban entrepreneurialism and rethinks its application to China. I argue that the state is proactively using market instruments for more strategic and developmental objectives in China. Characterized by ‘planning centrality, market instruments’, state entrepreneurialism manifests a different state–market relation: the state acts through the market rather than just being market friendly. In the post-crisis West, it is claimed that urban entrepreneurialism mutates into a financialized value extraction machine. Similarly, state entrepreneurialism reveals the usefulness but also the limits of the concept of urban entrepreneurialism. State entrepreneurialism adds a new narrative to the current description of governance changes associated with financialization and market operations.

Keywords

China, financialization, state entrepreneurialism, urban development, urban entrepreneurialism

Introduction

The seminal thesis of ‘urban entrepreneurialism’ developed by Harvey (1989) has inspired many researchers to explore the phase transition of urban governance in advanced market economies. The concept is proposed as a contrast to urban managerialism. Phelps and Miao (2020) extrapolate the concept into possible forms: new urban managerialism, urban diplomacy, urban intrapreneurialism and urban speculation. In this commentary, I further pursue possible alternatives in different geographical contexts. More specifically, I explore the variety in a less market-oriented transitional society and try to reconcile the contradictory tendencies of

pervasive market operations and persistent state centrality. I call this ‘state entrepreneurialism’.

Varieties of urban entrepreneurialism

Unpacking the meaning of entrepreneurialism, Phelps and Miao (2020) first note that traditional public administration has transformed into ‘new

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urban managerialism', including outsourcing and the competitive tendering of public services and public–private partnerships. This stream of changes is seen as innovation within the public sector. They are initiated by the state rather than by 'reactionary politics' as implied in urban entrepreneurialism (Lauermann, 2018). This new form represents reformed but not necessarily reduced state intervention.

Typical entrepreneurial activities that may be described as urban entrepreneurialism include various kinds of city branding, marketing and place promotion. Phelps and Miao (2020) call this 'urban diplomacy', in which the state is on the side lines, supporting entrepreneurial activities during inter-city competition. However, this discursive effort can further evolve into the physical transformation and redevelopment of urban space. In these activities, the state may be more proactive and interventionist. Instead of attracting investment, the developmental states of East Asia are well resourced bureaucracies, propelling innovation within the sizeable state sector (Phelps and Miao, 2020). Entrepreneurialism centred on the city-state is thus described as 'urban intrapreneurialism'. In post-crisis western economies, national and local authorities develop their own companies. The state role can be more predominant.

Finally, entrepreneurial activities can be purely speculative as in 'urban speculation'. The scheme of varieties proposed by Phelps and Miao (2020) enriches the content of urban entrepreneurialism. One important implication of this classification is that urban entrepreneurialism is seen less as a reaction towards rising market dominance – as neoliberal governance; these varieties depict various possible state manoeuvres, including the centrality of government bureaucracies within 'regulatory capitalism'. This leads to further exploration of the state role in entrepreneurial activities.

State entrepreneurialism

China has experienced profound governance changes since its economic reform. Through commodification, the state creates a market-like environment and uses market instruments to fulfil its

strategic objectives such as promoting economic growth to legitimize its power (Wu, 2015). To do so, the state gives its officials, usually at the local level in a defined territory, the power and capacities to organize economic development activities. Rather than simply making a profit, career advancement associated with economic prosperity is a major incentive for local state officials. Consequently, the state is transformed into an entrepreneurial market agency – known as 'state entrepreneurialism' (Wu, 2017: 158; also, see Wu, 2018). Because the local state is most salient in its entrepreneurial endeavour, state entrepreneurialism is closely associated with the city. The foundation of state entrepreneurialism was created through a series of institutional reforms in land, housing, infrastructure and public finance. The result is that 'the state apparatus, in particular the local state, demonstrates a greater interest in introducing, developing and deploying market instruments and engages in market-like entrepreneurial activities' (Wu, 2018: 1384).

Different from the perspective of governmental-ity, state entrepreneurialism does not aim to create a self-disciplined market driven by individualization and consumer choice. The state does not necessarily govern the market at a distance. The state is actively engaging with the market, through quasi-government agencies (e.g. land reserve centres, urban development and investment corporations) and state-owned enterprises, and uses market and financial instruments. Because of the close association with state agencies, these entrepreneurial activities, though they have to consider revenue, capital flow and profits, are not overwhelmed or captured by market (financial) logic. In short, they demonstrate the nature of 'planning centrality, market instruments' (Wu, 2018), revealing that state entrepreneurialism is deeply political.

State entrepreneurialism thus demonstrates an active process of using the market or acting through the market, rather than being submissive to the market. However, the operation of the market does impose some discipline on these entrepreneurial activities, creating risks and sometimes leading to project failure. Hence, state entrepreneurial agencies and regulatory environments have to constantly adjust themselves to align with market imperatives,

in the name of ‘deepening the (market) reform’. But these reforms are often adopted in technical rather than ideological terms (Wu, 2010). The market operation is pervasive but is not dominant.

An example of state entrepreneurialism is the development of Chinese ‘edge cities’ (Wu and Phelps, 2011). In contrast to a spontaneous clustering of office buildings to form an employment subcentre in the city-region, often attracted by a local business-friendly environment (Peck, 2011), Chinese new towns are comprehensively planned, often evolving out of planned industrial parks. In other words, new towns are the upgraded version of industrial development zones and high-tech parks, with mixed residential, industrial, office and commercial land uses. The ‘primary builder’ is the development corporation, which is a state-owned enterprise. The notion of the primary builder refers not only to its size and leading role but also to its monopolistic position in converting rural to urban land, a process under the control of the local state. The development corporation is an ‘investment branch’ of the government.

In the case of Beijing Yizhuang New Town (based on Beijing Economic and Technological Development Zone) (Wu and Phelps, 2011) or Shanghai Lingang New Town (Wang and Wu, 2019; Wu, 2018), the development corporation is a municipal-level development agency, landing and operating in the territory of district governments. The introduction of a development corporation is accompanied by institutional and governance changes. In the territory in which development corporations operate, the so-called ‘management committee’ (*guan wei hui*), a streamlined government, has been established, which often cooperates with an existing structure of district-township governments. The management committee is assigned specific economic development tasks, while the existing district-township governments take responsibility for social management (Wang and Wu, 2019).

Mutation of urban entrepreneurialism towards financialization

Rather than seeing the variegated form of urban entrepreneurialism, Peck and Whiteside (2016:

235) announce its demise – the mutation of urban entrepreneurialism into financialized governance. They predict that ‘the routinized play of growth-machine politics is being eclipsed by a new generation of debt-machine dynamics’. The new regime is qualitatively different as shown in the contrast between entrepreneurial city strategies and systemic financialization. ‘In an operating environment that has been *constitutively* financialized’, Peck and Whiteside (2016: 235, emphasis in original) argue, it is impossible for urban entrepreneurialism to operate. The entrepreneurial city mutates into ‘a value extraction machine’.

The global financial crisis in 2008 seriously undermined the structural coherence of China’s development model. In response, the Chinese state launched a 4 trillion Yuan stimulus package, triggering the process of financialization in China. While it correctly predicted the necessary role of state-owned enterprises in the implementation of crisis management, speculation that China’s state entrepreneurialism might end with a return to Keynesian principles of social redistribution has not materialized (Wu, 2017). Rather, the provision of credit is achieved through using land as a collateral asset to generate development finance. More specifically, the land reserve centre plays a role leveraging land mortgage, and urban development and investment corporations (known as *chengtou*) become a local government financial vehicle (Wu, 2020b). Based on land development, housing is ‘assetized’. Millions of homebuyers, though they are not necessarily property speculators, are motivated by value appreciation alongside pursuing a better quality of housing (Wu et al., 2020).

However, the deployment of financial instruments does impose a new operational requirement for state entrepreneurialism. Since the adoption of fiscal stimulus and credit expansion, the pressure of local debt has been increasing, which has required the state to adopt more financial instruments such as *chengtou* bonds, public–private partnerships, special project bonds, and municipal bonds to reschedule the debt. More market forms are deployed.

Concurring with Pike et al. (2019), who see financialization as a new phase of statecraft different from urban managerialism and urban entrepreneurialism, I recognize state entrepreneurialism not

just as a geographical variation of urban entrepreneurialism but rather as an alternative arrangement between the state and the market which is increasingly financialized. Along with large-scale urban development projects, the increasing demand for financing these projects and the potential financial risks necessitate that the state has to be more strategic in financial operations. This is in contrast to the earlier entrepreneurial activities of town and village officials who were more profit-oriented and officials in the cities who competed for foreign investment. State-owned financial organizations are part of this state entrepreneurialism in operation.

Conclusion

State entrepreneurialism is a concept related to, but different from, urban entrepreneurialism. Rather than seeing it as a variant form of known processes, I add a 'new narrative' to the understanding of contemporary governance changes (Wu, 2020a; Forthcoming). Urban entrepreneurialism is the most parsimonious presentation that describes the fundamental and salient feature of governance in advanced capitalist economies. The concept provides a perspective which should open rather than restrict an imagination of changing state and market relations. Thinking of the political economic history of Chinese cities and the new context of financialization, I have shown that the state strategically deploys market instruments; the state, as an agent participating in the market, acts through the market. Necessarily considering the requirements of market and financial operations, state entrepreneurialism has its own logic beyond the financial market.

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