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State-led financialisation: the case of the government-guided investment fund

Fenghua Pan
E-mail: panfenghua@bnu.edu.cn
1, Beijing Key Laboratory of Environmental Remote Sensing and Digital City, Faculty of Geographical Science, Beijing Normal University, Beijing, China.
2, Bartlett School of Planning, University College London, UK

Fangzhu Zhang
E-mail: fangzhu.zhang@ucl.ac.uk
Bartlett School of Planning, University College London

Fulong Wu
E-mail: fulong.wu@ucl.ac.uk
Bartlett School of Planning, University College London

Abstract: Recently there has been a growing trend of financialisation of the state. Drawing on the concept of state-led financialisation, this study is the first to explore how the GGIF has emerged and spread over the country. The promotion policies and practices of the central government have laid the key foundation for the development of the GGIF, while local governments have quickly adopted this new financial tool, resulting in its wide spread. State-owned enterprises are actually heavily involved in the operation of the GGIF, which indicates that this market-oriented tool has largely failed to attract capital from the private sector. This study shows that state-led financialisation in China has strengthened rather than weakened the influence of the state in the economy, which is different from most cases in Western economies. However, the limitations and risks of the GGIF are also related to the dominant role of the state in GGIF operation.

Keywords: state-led financialisation, government-guided investment fund, industrial development policy, urban development, state-owned firms

1 Introduction

The government-guided investment fund (GGIF, *zhengfu yindao jijin,* *政府引导基金*) in China has recently become a popular policy tool for governments at various levels to promote development. As stated in one recent document, “According to the needs of development, various funds…should be set up according to law to give full play to the guiding role and magnifying effect of government capital”[1]. All the funds mentioned in this document can be categorized as GGIFs, which refers to the government-guided private equity fund and venture capital fund, aiming to invest in equities to support development activities, strategic industries and infrastructure. GGIFs are considered an effective financial tool to promote development by the central government and local governments, and the GGIFs have spread all over the country within a short period of time.

This trend echoes the increasing financialisation of the state globally, as both the central government and local governments have been increasingly using financial tools to achieve policy goals[2]. Although the concept of ‘financialisation’ is controversial and has its limits[3], state-led financialisation in this study refers to the phenomenon of the state’s growing use of financialised policies. This broad definition of the financialisation of the state is different from that in many existing studies based on Western economies, as these studies have largely considered financialisation as the result of neoliberalism and hence declining role of the state[4]. However, it is not the case in countries like China[5]. We agree that the forms and consequences of the financialisation of the state are variegated due to different social and institutional settings[6], this study aims to investigate how state-led financialisation has occurred in China’s institutional contexts.

We argue that two key institutional factors are crucial for understanding the financialisation of the state in China. On the one hand, the state in China plays an important role in economic development. China has significantly reformed its economic and financial system and adopted various ‘market tools’[7] or ‘capitalist tools’[8] in policy practices to promote growth and development. This change of governance also leads to fierce inter-regional competition in applying financialised policies by local governments. On the other hand, the financial system in China has

1 CPC Central Committee and State Council, 2016
2 Ashton 2011; Christophers 2017; Gotham 2016; Ward 2017; Fields 2015; Lake 2015; Wang 2015.
3 Chistophers 2015.
4 Karwowoski 2019.
5 Wang 2015.
6 Bathelt and Gertler 2005; Peck and Zhang 2013; Lapavitsas and Powell 2013.
7 Wu 2018.
8 Wójcik and Camilleri 2015.

been largely controlled by the state, as most key financial firms, including banks, securities firms, insurance companies are state-owned. State-owned financial institutions in China have been actively involved in state-led financialisation.

Drawing on the case of GGIF, this study seeks to explore how the central government, local governments and state-owned enterprises have co-shaped the development of this financialised policy tool in China. The rise and spread of GGIFs are not the results of "the collusion between the power of the state and the magic of finance"[9]. Rather, they are the results of state planning and practices of using financialised policy tools to achieve development goals. More importantly, the central and local governments have significantly strengthened their influences in the economy through this financialised policy, which is different from the consequence of state financialisation in Western economies.

Although it is still too early to evaluate whether those development goals are achieved, this financialised policy is more 'government guided' and less 'market oriented' than expected, which reflects the limitation of state-led financialisation in China. The capital raised by GGIFs came mainly from the government or state-owned enterprises. As a result, the key policy objective of using government capital to leverage the private sector capital has not been accomplished. Meanwhile, we show that the state is heavily involved in the management of GGIFs directly or indirectly, which might result in the risks of the financial tool and have blurred the boundary between the investments made by GGIFs and traditional state-owned firms.

The rest of the paper is organised as follows. The second section provides a framework to understand state-led financialisation in the Chinese context. The third section describes how the GGIF has spread all over the country, followed by the introduction of the 'government guided and market-oriented operation' model of the GGIF. The fifth section analyses the role of the state in the spread of GGIFs, and the last section concludes the study.

2 State-led financialisation in the Chinese context

The state is the key actor in financialisation process[10]. "Financialisation is arguably an opportunity for state entities"[11], although not much research attention has been paid to the financialisation of public and semi-public institutions[12]. In fact, the state is not only transformed by the process of financialisation, but also actively promotes financialisation through deregulation of financial markets.

It has been widely observed that the state plays a very active role in 'facilitating,

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9 Wang 2015, 695.
10 Aalbers 2016, 3.
11 Karwowoski 2019, 1020.
12 Aalbers 2016.

pushing and engaged in the financialisation'[13], and many different financialised tools have been used by the state to accomplish all sorts of goals[14]. Governments "may use finance to legitimise, empower and depoliticise the use of state policies, regulations and funding in order to prioritize the interests of private investors and financial actors or simply to 'get by' in a context of urban austerity, fiscal crisis, and policy devolution and rescaling"[15]. Financialisation indeed has transformed the government[16]. The urban policy relies on financial instruments[17], or in other words, the financialisation tool is used for state management[18]. Moreover, it is argued that the state may use finance to extend its power[19]. In reality, various financial instruments are used by governments of varied levels in many countries, including Western economies[20].

One stream of literature has linked financialisation to neoliberalism and privatisation in Western economies. Thus, the financialisation of the state is defined as the "change relationship between the state, understood as sovereign with duties and accountable towards its citizens, and financial markets and practices, in ways that can diminish those duties and reduce accountability"[21]. It is even argued that neoliberalisation has been realized through financialisation[22]. Thus, the financialisation of the state is understood as a result of neoliberal policies which tends to reduce welfare provision[23]. In this sense, the state has been captured by financialised capital[24]. However, financialisation is not a continuation of privatisation or necessarily neoliberal policies[25]. For instance, as shown in Mexico and Turkey, "private ownership is no longer necessary under emerging finance capitalism"[26].Despite its market-oriented transformation[27], China's unique characteristics[28] make the financialisation of the state in China a case beyond Western experience. In practice, the central government, local governments and state-owned enterprises are key to understanding the financialisation of the state in China. **First**, the state has a very strong capacity to mobilise political and financial resources to achieve development goals by using and promoting financial tools. In China, the state still plays a crucial role in the economy and pursues economic growth. Policies in China have been thought to be very "proactive towards its growth agenda"[29]. With the continuing opening up and reform of financial markets, more financial tools have become available for governments to finance development. For instance, stock

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13 Aalbers 2019: 1.
14 Weber 2010; Van Loo et al. 2018; Theurillat and Crevoisier 2013; Ashton et al. 2016; Aalbers 2019; Karwowoski 2019.
15 Aalbers 2019: 7.
16 Ashton et al. 2016.
17 Lake 2015.
18 Lagna 2016; Wang 2015.
19 Gotham 2016.
20 Aalbers 2019; Karwowoski 2019; World Bank 2012; Christophers 2017; Gotham 2016; Davis 2009; Pacewicz 2012; Prasad 2012;
21 Karwowoski 2019, 1001.
22 Van Loon et al. 2018.
23 Karwowoski 2019.
24 Fields and Uffer 2016; Peck and Whiteside 2016.
25 March and Purcell 2014; Karwowoski 2019.
26 Marois 2012: 38.
27 Wu 2002.
28 Peck and Zhang 2013.
29 Wu 2018: 1394.

exchanges are used by the central government to help state-owned firms reform and raise capital[30]. Recently, the rise of the 'shareholding state' as illustrated by a giant state-owned financial institution, the Central Huijing Investment Ltd[31], indicates that the financialisation of economic management has taken place in China. Similarly, asset management companies have been used by the state as a 'spatial–temporal strategy'[32]. In addition, the central government not only uses financial tools itself, but also requires local governments to do so. The local governments are even more active in applying financialised tools to achieve development goals. China's local governments have been struggling for capital shortage due to the fiscal system[33]. While land financing is no longer sustainable for most local governments to raise capital, local governments are eager to try new ways of financing development. Moreover, local governments have strong incentives to learn from and compete with each other in adopting financialized tools[34].

Second, state-owned firms are found to be crucial in the financialisation of economic management in China[35], as they could be the key funders, investors, project managers or any other important players in the financialisation of development policies in China. Major banks, key securities companies and large asset management companies are state-owned, and are in a dominant position in the financial market. State-owned firms, in particular financial institutions, are controlled by the state and guided to provide finance for or to invest in projects relevant to national or local development goals. In this context, the whole financial system has been required to support government policy directions. Thus, the circulation of capital in China can be driven by policy directions rather than by market forces. For instance, the China Development Bank plays a key role in financing for urban development[36]. In fact, state-owned enterprises and financial institutions are key investors or providers of loans for investment related to national strategies such as the western development programme[37] and the Belt and Road Initiative[38]. Consequently, key financial institutions become involved in the process of the financialisation of development led by governments at various levels.

The above-mentioned factors indicate the financialisation of the state in China is significantly different from that in other economies. This study uses the case of the GGIF to explore how a financialised policy has spread over the country very quickly in this unique institutional setting. In addition, we will examine the business model of the GGIF and the roles of the central government, local governments and state-owned enterprises in the development of this financialised policy, based on which the consequences and limitations of the state-led financialisation in China will be discussed.

[30] Pan and Xia 2014; Sun, Tong and Wu 2013.
[31] Wang 2015.
[32] Ho and Marois 2019.
[33] Pan et al. 2017.
[34] Pan et al. 2017.
[35] Wang 2015.
[36] Chen 2010.
[37] Lai 2002.
[38] Chan 2018.

3 The rise of the GGIF as a financial tool of governments in China

3.1 The predecessor to the GGIF

The predecessor to the government-guided investment fund (GGIF) in China was the public venture capital fund, which has been widely adopted by governments across the world to boost entrepreneurial activities. This financial tool has become more popular since the success of Yozma Group, a government-sponsored venture capital firm established in 1993 in Israel[39]. After 2000, government co-investment funds (CIFs) became a mainstream policy scheme to support start-ups in Western economies[40]. CIFs are designed to encourage matching public–private sector investment with the private sector taking the lead in investment selection[41].

Overall, this financial tool has been used by governments in Western countries in a modest way. First, the investment area of these funds is limited to supporting start-ups, which is considered to be complementary to the seed and early stage entrepreneurial finance market[42]. Second, the money provided by the government is also of a limited amount. The London Co-Investment Fund is a typical case[43]. This fund was set up in 2015 and raised £25 million to co-invest in seed rounds of between £250,000 and £1 million.

China introduced this financial tool at the end of the 1990s and followed the same path as its Western counterparts. In 1999, the Ministry of Science set up the SME Technology Innovation Fund[44], which was the first public venture capital fund sponsored by the central government. The fund was mainly aimed at investing in high-tech start-ups with a small volume of money for each firm. This was an early version of the GGIF which only focused on entrepreneurial activities in the high-tech sector. However, this financial tool was not widely used by governments for a long time and only a very limited number of funds were set up in earlier years.

3.2 Boom of the GGIF after 2008

The GGIF as a financial tool started to thrive only after the central government formally proposed to develop government-guided venture capital funds[45] in 2008. Since then, there has been a significant development of this financial tool. The number of GGIFs as well as the fund size has been growing explosively and the GGIF is now widely used by governments at various levels to support entrepreneurial activities, strategic

[39] Lerner 2010.
[40] Pierrakis 2010.
[41] Lerner 2010.
[42] Baldock and North 2015.
[43] UK business angel association. https://www.ukbaa.org.uk/services-for-investors/resources/co-investment-funds/, accessed 1 February 2019.
[44] http://innofund.chinatorch.gov.cn/2/jjjj/about.shtml?id=1, accessed 1 February 2019.
[45] The State Council, 2008a.

emerging industries and, more recently, infrastructure development in China. Based on the dataset of Zero2IPO, this study collects information on all GGIFs to the end of 2016. This section will illustrate the booming growth of this financial tool.

The number of GGIFs has grown very quickly since 2008 after a long period of stagnation (See Figure 1). In 2007, only eight GGIFs were established, while the number of GGIFs grew quickly after that. The number of newly established GGIFs grew from 27 in 2008 to 106 in 2014. The year 2015 witnessed an extremely sharp increase in the number of GGIFs: 399 new GGIFs were set up in a single year. The following year, 510 new GGIFs were established. Meanwhile, the average fund size of the new GGIFs also grew dramatically from below 1 billion RMB before 2009 to over 8 billion RMB in 2016, indicating its growing potential in shaping economic development.

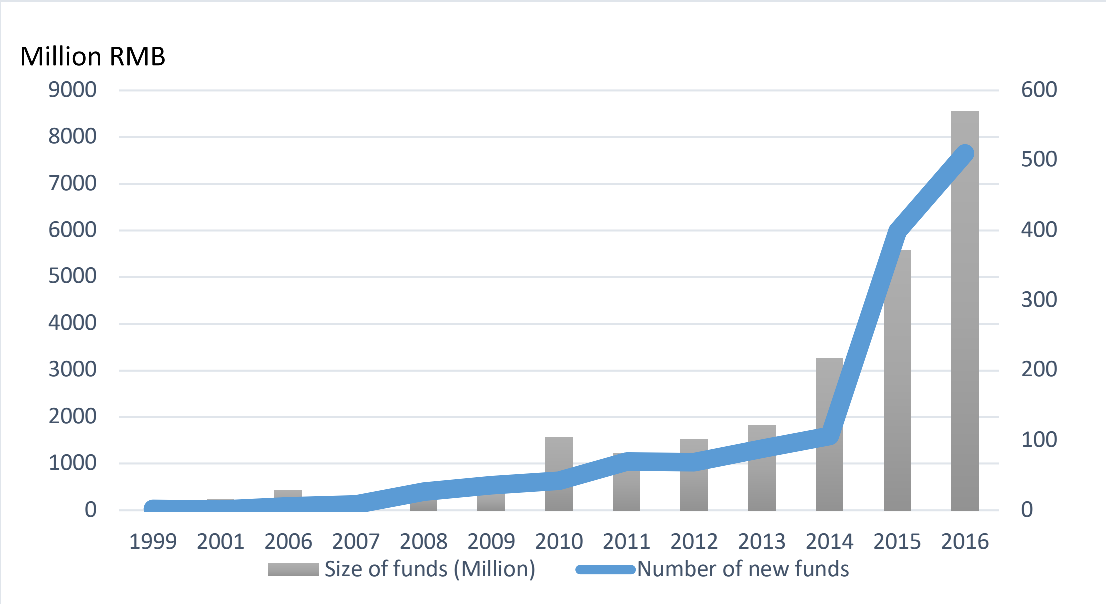

Figure 1 The growing number and size of GGIFs over time

Source: Zero2IPO

GGIFs have been used to invest in more diversified areas over time (see Figure 2). Before 2010, GGIFs were set up by governments mainly to support entrepreneurial activities. From 2010, the number of GGIFs targeted for strategic and emerging industries started to grow very quickly. In 2014, the number of GGIFs for strategic and emerging activities overtook that for start-up funds and subsequently became the mainstream. The infrastructure fund accounted for a very marginal proportion of all GGIFs before 2015. However, more GGIFs focused on infrastructure were then set up and the figures grew sharply to 58 and 82 in 2015 and 2016 respectively. Thus, GGIFs started to invest more public projects in recent years.

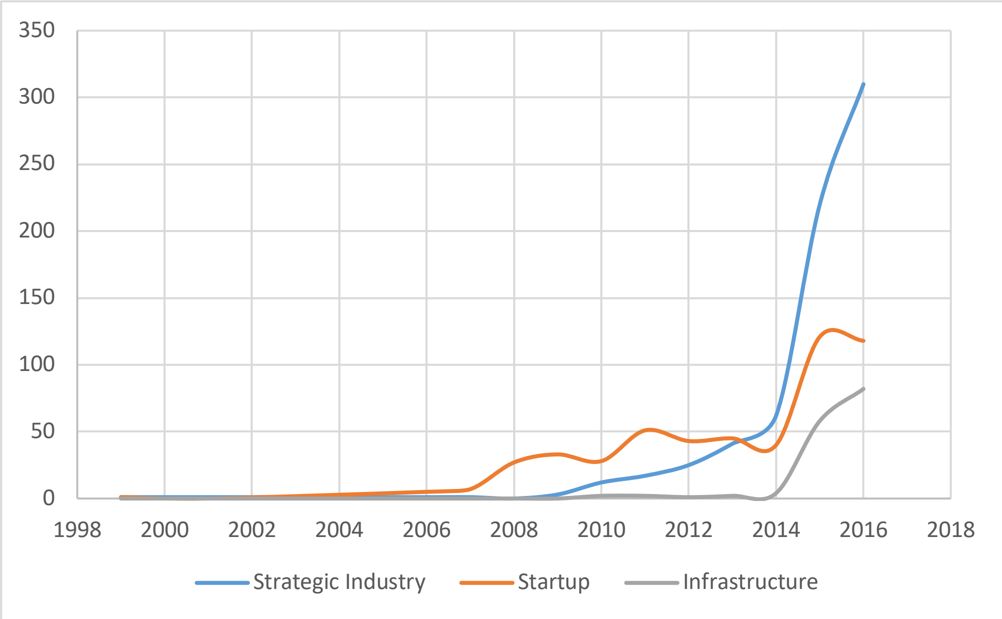

Figure 2 Number of GGIFs for different purposes

Source: Zero2IPO

4 The operation model of the GGIF

The GGIF has become a popular policy tool in China, while the state has purposely designed and promoted it. In order to achieve policy goals, the central government has defined the overall operation model of GGIF as 'government-guided and market-oriented operation'[46]. This idea is not new. In 2008 three regulatory bodies jointly issued a document to regulate and promote the development of the 'government-guided venture capital fund' and defined it as 'a policy fund set up by government but operated based on market rules'[47]. This idea has been firmly adhered to over time.

4.1 Government guided

It is not surprising that the GGIF is to be 'government guided' as its name suggests. There are two important and related features to do with being government guided, according to the definitions of GGIF[48] by the regulatory entities. First, a GGIF should be initiated by the government which injects its own money to set up the fund. The Ministry of Finance (MOF) in 2015 defined GGIFs as 'funds set up solely by governments at all levels through budgetary arrangements or jointly by governments together with the private capital'[49]. Similarly, the National Development and Reform

[46] State Council 2015; CCP Central Committee and State Council 2016.

[47] State Council 2008a.

[48] Currently the GGIF in China is a concept with many names[48] with slight differences. The two most widely used names are "government investment fund (zhengfu touzi jijin)" and "government-guided industrial investment fund (zhengfu chuzi chanye touzi jijin)", which are adopted by MOF and NDRC respectively.

[49] MOF 2015.

Commission (NDRC) in 2016 defined GGIFs as 'those private equity funds and venture capital funds guided by governments', and government funds for GGIF come from budgetary investments, special funds of the central and local governments, and other fiscal funds[50].

Second, the investment areas (and purposes) of GGIFs are defined by the government. Given that the GGIF is a policy tool, each GGIF is assigned a purpose by the government before it is established. As the regulatory entity, the MOF has requested that GGIFs invest in 'key and emerging areas of economic and social development' including entrepreneurial and innovation activities, small and medium-sized firms, industrial upgrading and transformation, infrastructure and public services[51]. Similarly, the key investment areas of the GGIF as defined by NDRC include 'non-basic public services, infrastructure, affordable housing, ecological and environment, regional development, strategic new industries and advanced manufacturing, entrepreneurial and innovation activities'[52]. All in all, GGIFs are used in almost all areas related to development at various geographical scales.

In fact, the name of the GGIF can reflect the investment area (and purposes) of the fund. For instance, if a specific industry, such as robotics, internet, or big data, is mentioned in the name of the GGIF, the fund mainly invests in projects related to this particular industry. Similarly, most GGIFs that aim to invest in start-ups have 'entrepreneurial fund' or 'start-up fund' in the names. For those GGIFs aimed to invest in infrastructure and housing, there are words about the infrastructure reflecting this purpose.

4.2 Market oriented

Although being government guided, GGIFs are designed to adopt 'market-oriented operation' using the form of the venture capital and private equity fund. As previously mentioned, the venture capital and private equity fund is a typical capitalist tool and has been used by governments in Western economies. In this sense, China is not different from Western economies in using market tools to achieve development goals.

In practice, the GGIF in China applies a seemingly market-operated model in several ways. First, in addition to direct inputs from governments, the GGIF seeks to raise more capital from other channels just like normal venture capital and private equity funds (as shown in Figure 3). The process of raising capital is thought to be market oriented, although private capital may be reluctant to join a GGIF. Second, the funds are run by professional fund management companies, rather than the government itself, even though the fund management companies can be state owned or controlled indirectly by the government. Third, as the funder of the GGIF, the government does not need to have

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[50] NDRC 2016.

[51] MOF 2015.

[52] NDRC 2016.

unlimited financial responsibility for the project invested in by the GGIF. In other words, if the project fails, the government only suffers a loss proportionate to its capital share in the GGIF. However, with more investments being made in infrastructure projects, the government needs to find another solution if a project fails. Recently, many GGIFs have adopted the form of fund of funds (FOF), which allows them to make investments and attract capital in a more flexible way.

Therefore, as a financialised tool used by government to promote development in China, the GGIF is now different from its Western counterparts in several ways. In particular, GGIFs are aimed at promoting start-ups, cultivating strategic emerging industries and supporting infrastructure and public services, while Western public venture capital funds aim only to invest in start-ups. In addition, GGIFs aimed at strategic industries and infrastructure are much larger in capital size than those aimed at supporting entrepreneurial activities in Western economies. Finally, in order to make sure that the GGIF is government guided, the fund management companies that make decisions on investments are directly or indirectly controlled by the state, while fund management companies are usually independent in their decision-making processes in Western economies.

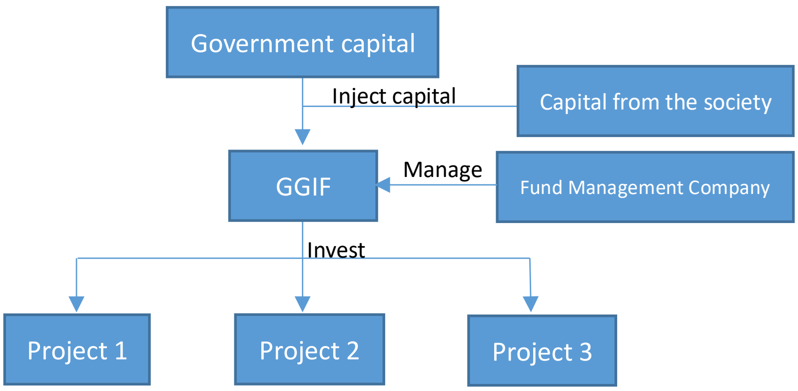

Figure 3 Operation Structure of GGIF
Source: author

5 The spread of the GGIF

Obviously, the state has designed the business model of GGIF from the very beginning. The government is in a dominant position in the operation of the fund, despite the claim of market-oriented operation. In practice, in addition to the government, state-owned firms have played a key role as the major funders in the spread of GGIF, as private capital is reluctant to take part in the business for certain reasons. In this section, we will elaborate why and how the central government, local government and state-owned firms have co-shaped the development of GGIFs.

5.1 Central government as initiator, promoter and regulator of the GGIF

The central government in China has promoted GGIFs strongly at different stages for different policy goals, reflecting the increasing financialisation of the state in economic management [53]. In addition, the central government has not only issued many documents to promote the GGIF as a development tool, but also has set up several GGIFs and endorsed this financial tool.

As previously mentioned, the central government introduced government-guided venture capital funds in the late 1990s to promote entrepreneurial activities and innovation. However, this tool did not spread widely in the early years. Partly due to the booming venture capital market and inflows of international venture investments[54], in 2008 the central government formally proposed to develop government-guided venture capital funds[55]. In response to this policy, the 'National Guidance Fund for Science and Technological Application' was set up by the central government in 2011.

Not long after, the central government realized the potential role of the GGIF beyond financing only for entrepreneurial activities and started to use GGIFs for other purposes. In 2010, the central government proposed to develop strategic and emerging industries[56] and encouraged the setting up of GGIFs to achieve this goal. The document issued by the State Council advocated to "give full play to the guiding role of GGIF in strategic and emerging industries and expand the scale of GGIF[57]" (see Table 1). Afterwards, a number of GGIFs were set up by the central government. For example, the National Integrated Circuit Industry Investment Fund and the Advanced Manufacturing Industry Investment Fund are two typical cases (see Table 2). More recently, the central government has promoted the use of the GGIF in supporting infrastructure development. In 2014, the State Council issued a document to encourage the establishment of more GGIFs focusing on infrastructure[58]. Further, the document jointly issued by the CCP Central Committee and the State Council in 2016 indicated that the importance of this multi-function policy tool was fully endorsed by the central government. In 2014, the Railway Development Fund was founded, while more GGIFs for infrastructure were subsequently founded by local governments. Not surprisingly, the number of GGIFs aimed at investing in strategic industries and infrastructure grew quickly from then on (See Figure 2).

In the meantime, since *Mass Entrepreneurism and Innovation* has become a national agenda, the central government has regained its enthusiasm for adopting the GGIF as a policy tool to promote start-up activities and innovation. In the document issued by the State Council in 2014, there was encouragement to 'give full play to the role of GGIF',

53 Wang 2015.
54 Zhang 2011.
55 State Council 2008a; State Council 2008b.
56 State Council 2010.
57 State Council 2010.
58 State Council 2014.

and "local governments were encouraged to set up more GGIFs to support entrepreneurial activities"[59]. In this context, the National Fund for the Development of Small and Medium-sized Enterprises and the National Venture Capital Guidance Fund for Emerging Industries were established (see Table 2). Therefore, there was a resurgence of GGIFs to support start-ups in 2015 and 2016 (See Figure 2).

Table 1 The role of the GGIF in central government policies

#	Policy	Year	Relevant contents
1	Decision of the State Council on Accelerating the Cultivation and Development of Strategic Emerging Industries	2010	Give full play to the guiding role of government venture capital in emerging industries, expand the scale of government venture capital in emerging industries, make full use of market mechanism, and promote capital from the capital to invest in innovative enterprises in strategic emerging industries in the early and middle stages of entrepreneurship.
2	Guidance of the State Council on Innovating Investment and Financing Mechanisms in Key Areas to Encourage Social Investment	2014	Encourage the development of investment funds to support the construction of key areas. Develop equity investment funds and venture capital funds and encourage capital from the society to initiate and set up industrial investment funds that mainly invest in public services, ecological environment protection, infrastructure, regional development, strategic emerging industries and advanced manufacturing industries.
3	The State Council's Opinions on Several Policy Measures for Vigorously Promoting Mass entrepreneurship and innovation	2015	Speed up the establishment of the National Venture Capital Guidance Fund for Emerging Industries and the National Fund for the Development of Small and Medium-sized Enterprises; local governments are encouraged to establish and improve government-sponsored venture capital funds.
4	Some Opinions of the State Council on Promoting the Sustainable and Healthy Development of Venture Capital	2016	Support all kinds of institutional investors such as centrally state-owned enterprises, local state-owned enterprises, insurance companies and university funds to invest in venture capital enterprises and venture capital parent funds; give full play to the role of the government sponsored venture capital fund; encourage the setting up of more government-sponsored venture capital funds following "government-led, market-oriented operation" rules in areas that have not been covered by the established funds.
5	Opinions of the CPC Central Committee and State Council on Deepening the Reform of Investment and Financing System	2016	According to the needs of development, various funds, such as infrastructure construction fund, public service development fund, housing security development fund and government-funded industrial investment fund, should be set up according to law to give full play to the guiding role and magnifying effect of government funds.

Source: Authors collected

[59] State Council 2014.

Table 2 Selected GGIF established by the central government

#	Name	Fund size (RMB)	Founding year	Key funders
1	Technology Innovation Fund for Small and Medium-sized Technological Enterprises	-	1999	MOST (Ministry of Science and Technology)
2	National Guidance Fund for Science and Technological Application	-	2011	MOST
3	National Integrated Circuit Industry Investment Fund	-	2014	MIIT (Ministry of Industry and Information Technology), Guokai Finance, China Tobacco, Yizhuang Guotou, China Mobile, Shanghai Guosheng, China Electrical Science, Ziguang Communications, Huaxin Investment
4	China Railway Development Fund	400 billion	2014	China Railway Corporation
5	National Fund for the Development of Small and Medium-sized Enterprises	60 billion	2015	MOST
6	National Venture Capital Guidance Fund for Emerging Industries	40 billion	2015	MOF and NDRC
7	Advanced Manufacturing Industry Investment Fund	20 billion	2016	NDRC, MOST, MIIT, National Development Investment Corporation and ICBC (Industrial and Commercial Bank of China) Credit Suisse
6	National Strategic Emerging Industries Development Fund	300 billion	2018	NDRC and CCB (China Construction Bank)

Source: Authors collected

Moreover, the central government is also the regulator of the GGIFs that are established by local governments. It is worth mentioning that due to the rapid development of GGIFs and the potential risks, the central government has also played a role as regulator and released many regulatory documents on GGIFs (See Table 3). In 2008, the first regulation document on GGIFs was jointly issued by the NDRC, MOF and Ministry of Commerce (MOC). NDRC and MOF issued regulations on GGIFs in 2015 and 2016 respectively. Interestingly, the key ministry in charge of guiding the development of the GGIF has changed over time. In the early years, the Ministry of Science and Technology was in charge of government-sponsored venture capital funds. Later, MOF and NDRC became the key regulators and promoters of GGIF, reflecting the fact that this financial tool is increasingly important as a development approach beyond supporting entrepreneurial activities.

Table 3 Regulatory policies on GGIFs

	Year	Document name	Regulators
1	2008	Guidance on the establishment and operation of government-led venture capital funds	NDRC, MOF and MOC
2	2015	Interim Measures for the Administration of Government Investment Funds	MOF
3	2016	Interim Measures for the administration of government-guided industrial investment funds	NDRC
4	2017	Notice on improving the credit information registration of government-guided industrial investment funds	NDRC

Source: Authors collected

As shown in the case of GGIF, the central government has planned, practised and regulated the financialised approach to development in China. The role of the central government and its regulatory functions show that "planning centrality is a salient feature of state entrepreneurialism"[60]. Many large state-owned enterprises, in particular financial institutions, are involved. Also, local governments are requested to use this financial policy to boost development, which will be analysed in more detail in the following section.

5.2 Local governments as key players in setting up GGIFs

Based on the dataset, 1334 of all 1369 GGIFs were founded by local governments of various levels during the study period. In addition, there is a trend that more governments of lower administrative level have started to use this tool in recent years, reflecting the popularity of this financialised approach. As shown in Figure 4, the GGIF has spread all over the country, irrespective of significant regional difference. This spatial expansion has taken a while. In the earlier development stage during 1999-2007, GGIFs only emerged in Beijing, Shanghai, Shenzhen and their neighbouring cities. At this stage, the number of GGIFs in these cities was quite small. During 2008-2013, GGIFs spread to many cities across the country, though most of these cities are provincial capital cities and are located in more economically developed regions. After 2014, GGIFs spread all over the country.

[60] Wu, 2018: 1394

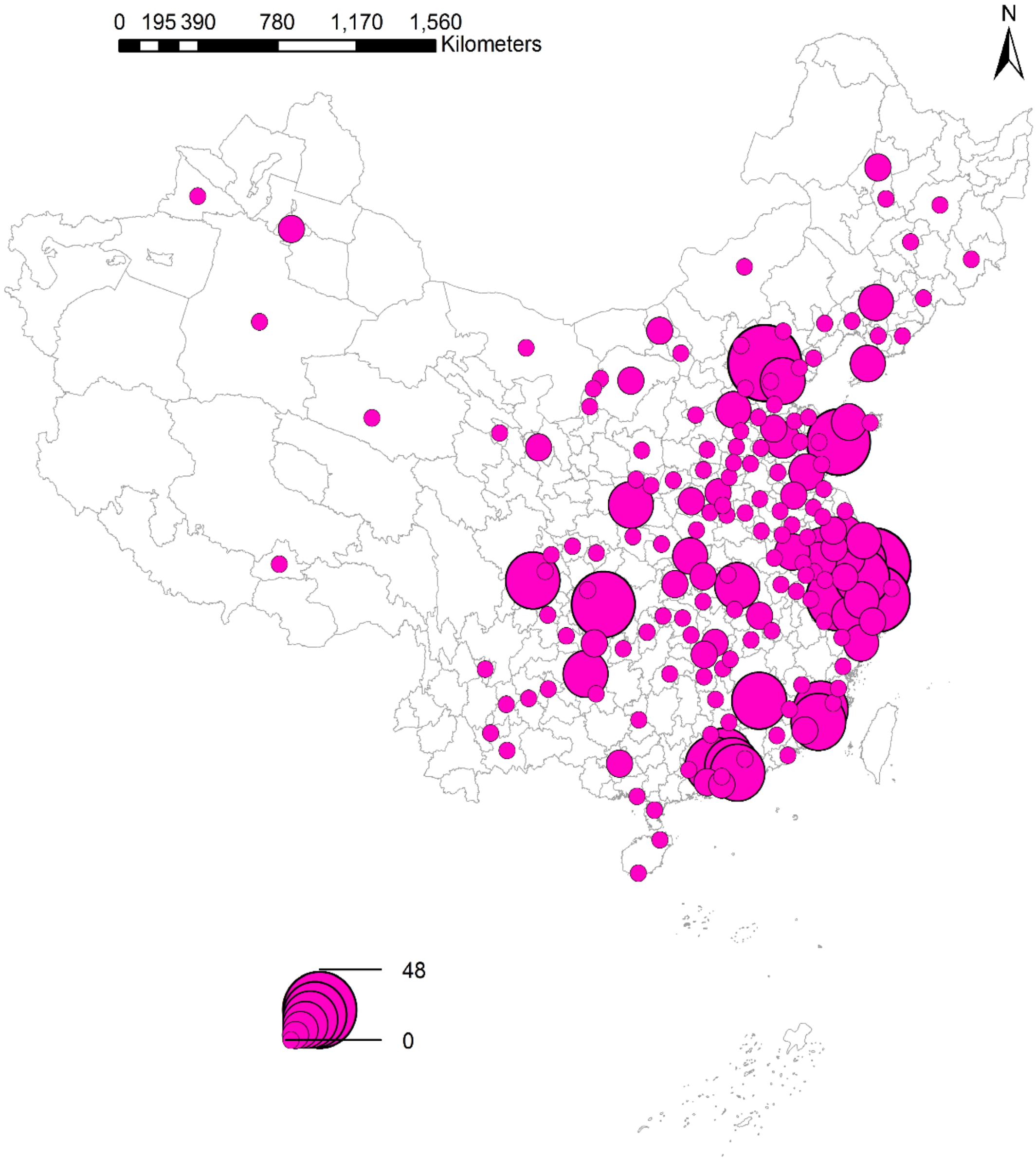

Figure 4 The spatial distribution of GGIFs in China
Source: Zero2IPO

Not surprisingly, the continued promotion of GGIFs by the central government has exerted great impacts on local governments, which have also set up many GGIFs to boost development in recent decades. While using GGIFs to support industrial development and finance infrastructure is done for its own sake, growth-oriented governments are also willing to use any policy tool that might help economic growth in China due to inter-regional competition and the cadre evaluation system of the country[61].

The function of GGIFs established by local governments evolved, similar to that of those established by the central government. The GGIF was used by local government

61 Li and Zhou 2005.

to support entrepreneurial activities in the early years in developed areas. The first local GGIF, the Zhongguancun Venture Capital Guidance Fund, was set up at the end of 2001 in Beijing[62]. This fund was aimed to only invest in start-ups with high growth potential. The number of local GGIFs then stagnated for a while. After the central government advocated the use of this financial tool to support more areas from 2010 onwards, GGIFs spread more quickly.

The number of GGIFs set up by local governments for specific industries started to grow quickly after the central government advocated the use of GGIFs to develop strategic emerging industries from 2010. Of all the GGIFs established by provincial (including centrally administrated municipal) governments, 68% are industrial development funds, while of those GGIFs established by city governments, industrial development funds account for 58% of the total. Industries with high growth potential or advanced technology are mostly supported by local governments. For instance, Shanghai Big Data Fund and Shenyang Robot Industry Development Fund are typical GGIFs set up by local governments.

Similarly, the number of GGIFs for infrastructure such as new town development, express roads, the environment, public housing and so on started to grow quickly after the central government advocated the use of GGIF financing for infrastructure in 2014. The Beijing Sub-centre Development Fund and Quanzhou City Construction Fund are examples in point. In addition, some GGIFs are set up by local governments to boost both industrial and infrastructure development in a specific region. For instance, there is the Fund for the Rise and Revitalization of Central Hunan and Hubei Yangtze River Economic Belt Guidance Fund. Moreover, in 2015 with Mass Entrepreneurism and Innovation becoming the national agenda, GGIFs supporting start-up activities were widely set up by local governments.

The rapid spread of GGIFs established by local governments has proved that the guidance from the central government seems to have had great impact on the behaviour of local governments. The adoption of the GGIF by local governments shows that "local officials who demonstrate entrepreneurial behaviours are a constituent of the state apparatus"[63], as there exists an obvious, top-down, very fast spread of this financialised development policy.

However, local governments have incentives to set up many GGIFs for their own sake. In fact, the wide spread of GGIFs shows that China's growth machine has been characterized by a global parallel trend, in which cities adopt "coercive applications of financially driven development"[64]. Start-up activities, strategic industries and infrastructure are all key driving factors for economic growth. Local governments are willing to use GGIFs to fulfil growth goals. Therefore, it is common that GGIFs set up

[62] http://news.163.com/14/0728/00/A270JCUM00014AED.html
[63] Wu 2018: 1395.
[64] Peck 2916: 6.

by local governments are required to invest in local projects.

Another reason why GGIFs on infrastructure have become popular may be that local governments in China are heavily in debt and the central government has imposed increasingly stricter regulations on local governments' borrowing behaviour[65]. The GGIF has certain advantages: first, this tool has been recently encouraged by the central government; second, the capital attracted into GGIFs is not calculated as debt of local government due to the business model. Consequently, GGIFs can be used as a new way to finance urban development by local governments. One piece of evidence is that local government financing platforms (LGFPs) are very active as investors in GGIFs that are aimed to invest in infrastructure.

5.3 State-owned enterprises as major funder of GGIF

One long standing policy objective of GGIFs has been to attract capital from the society to invest in relevant projects through the development of GGIFs. In a document issued in 2008, there was a requirement that "The government-guided fund mainly attracts capital from the society to co-sponsor the establishment of fund"[66]. This policy objective has been repeatedly stated in all key policy documents on GGIFs issued by the central government since then[67]. GGIFs supporting entrepreneurial activities, strategic industries and infrastructure, established by either the central government or local governments, are all advised to attract capital from the society as co-funders.

This idea of attracting capital from the society to co-invest in projects in key areas is quite similar to CIF in Western countries. However, in the Chinese context, the government is willing to take the lead role in the investment process and make sure that the GGIF is 'government guided'. It is argued that "the state apparatus is not equivalent to a business establishment, no matter how it behaves entrepreneurially"[68], and this is true for the GGIF as a financialised tool which is 'not just for profit'[69]. In reality, achieving a balance between 'economic benefits' and 'social benefits' is one principal rule for such GGIFs when making investment decisions, which can be seen in the public profiles of many of them. Thus, financial profits are not the top concern of the investments made by a GGIF. Rather, the development goals defined by governments are more important concerns, even though it is difficult to measure how these policy objectives have been achieved.

The government-guided nature of the GGIF has resulted in a strong negative impact on achieving the goal of attracting capital from the private sector. In practice, private capital may hesitate to join a GGIF as the decision-making process is directly or indirectly controlled by the government. Although achieving policy goals and making

[65] Pan, Zhang, Zhu, and Wójcik 2017.
[66] State Council 2008.
[67] MOF 2015.
[68] Wu 2018: 1396.
[69] Wu 2018: 1396.

profits are not necessarily contradictory, there are too many uncertainties for private capital to become involved in such projects, in particular infrastructure projects.

If private capital is not willing to become involved in GGIFs, how is it that GGIFs have become so widespread? In practice, the major funders attracted to GGIFs are state-owned enterprises, including financial institutions, large industrial firms and local government financing platforms. State-owned firms as key capital funders for GGIFs seem more patient regarding investment, although they are sometimes unpredictable for political reasons[70].

For those GGIFs established by the central government, national banks and large state-owned firms are key contributors to the fund. For instance, the National Development Bank (NDB) and the Industrial and Commercial Bank of China (ICBC) are the co-founders of the Advanced Manufacturing Industry Investment Fund, which was set up in 2014. For the National Integrated Circuit Industry Investment Fund, many flagship state-owned financial and non-financial firms including Guokai Finance, China Tobacco, Yizhuang Guotou, China Mobile, Shanghai Guosheng, China Electrical Science, Ziguang Communications and Huaxin Investment have participated.

This is also the case for GGIFs established by local governments. In addition to local government capital, local state-owned firms including local government financing platforms, non-financial firms and banks are the major investors in GGIFs. In some cases, centrally owned financial institutions and non-financial state-owned firms are also involved. There are differences with regard to the composition of investors between GGIFs with different functions. For GGIFs focusing on start-ups, the size of funds is smaller and usually governments are the only investors in the funds. However, for GGIFs aimed to promote strategic industries, financial institutions and state-owned firms are more important sponsors. The lead firms in the specific industry are usually invited to invest in such GGIFs. For those GGIFs established by governments of higher administrative level, state-owned enterprises and banks of the central government are more likely to be involved. For GGIFs focusing on infrastructure, the size of the fund is much larger. It is common for them to be sponsored by large state-owned financial institutions. For example, the Beijing Sub-Centre Development Fund was set up by the Beijing Municipal Government to invest in infrastructure in Tongzhou District, which has been planned as a sub-centre of the capital. The Agricultural Bank of China (ABC) and the Municipal Government of Beijing co-invest in this fund and the ABC holds 80% of the total investment. With the development of GGIFs for infrastructure, LGFPs have become key investors in them.

All in all, the state-owned sponsors of GGIFs are a key component of state-led financialisation in China, and the involvement of state-owned financial institutions, lead industrial firms and LGFPs as co-funders of GGIFs has been crucial in shaping the rapid expansion of this new financial tool.

[70] Shih 2009.

6 Conclusion

Drawing on the case of the GGIF, this paper explores how state-led financialisation has taken place in the Chinese context. This study shows the crucial roles of the central government, local governments and state-owned enterprises in the spread of this financialised policy. Despite market-oriented reform, the use of the GGIF "is not for the market but for using market means"[71] to solve problems in development. State-led financialisation in China has not resulted in the decreasing role of the state as what happened in many Western economies. On the contrary, "rather than being replaced by market power, state power is reinforced by its use of market instruments"[72].

This study has enriched the existing literature by highlighting the role of the state in the financialisation of development policies in China's contexts. Financialisation can be 'a state-driven process' in a liberal market economy such as the US[73], but the role of the state in the financialisation of development policies in China is different as the policies seem to internalise finance in state management[74] by using state capital directly or indirectly.

This study shows that the central government has played a key role in designing and promoting financialised policy[75]. The central government of China has promoted new policy tools that are 'proactive towards its growth agenda'[76]. By guiding investments towards key areas as defined by the state, the state has strengthened its influence and control over the economy. In addition, the central government has strengthened its control over local governments through central state-owned financial institutions investing in the GGIFs established by local governments.

Local governments in China have been active in adopting GGIFs as a financialised development policy, as happened in Western economies. However, there are some Chinese characteristics. On the one hand, local governments have been following guidance from the central government. Due to the strong promotion of the central government, local governments have the pressure to adopt this tool promptly. On the other hand, urban entrepreneurialism with Chinese characteristics[77] may have speeded up the spread of this approach to financialisation. In particular, inter-jurisdictional competition may be the key driving force in the diffusion of this policy[78]. Furthermore, with the tightening regulation on the LGFP, the GGIF has become an alternative way for local governments to finance for regional development.

71 Wu 2018: 1395.
72 Wu 2018: 1396.
73 Gotham 2016: 1362.
74 Marois 2012.
75 Ho and Marois 2019; Wang 2015.
76 Wu, 2018: 1394.
77 Chien 2013.
78 Pan, Zhang, Zhu, and Wójcik 2017.

One negative consequence of financialisation in urban development policies in Western economies is that “the locus of power and control has been shifting from growth coalitions to debt machines and from local business leaders to more distant financial-market interests”[79]. In the case of GGIFs established by governments in China, the key funders are state-owned firms controlled by the local or central government. Thus, the approach again reinforces the role of the state in urban development. In reality, local governments and the central government sometimes have different policy goals when using this financialised tool. As the regulator, the central government cares about the systematic financial risks brought by this tool, while local governments seek short-term growth when using it. Therefore, the interactions between the central and local governments have strong impacts on the development of GGIFs.

However, the unexpectedly important role of state-owned enterprises, in particular, state-owned financial institutions such as banks, as key funders in the development of GGIF might bring systematic financial risks to the economy. As a market tool advocated by the state, it is assumed that investors need to bear the risks themselves when they put money into GGIFs. However, state-owned firms might make investments in GGIFs under political pressure from governments at various levels. For these state-owned firms, seeking profit is not the most important motivation for investing in GGIFs. Given the operation rules and investment areas of GGIFs, it is difficult to receive proper investment returns on projects guided by the government, despite financialisation in China happening in a growth environment faster than its Western counterparts[80]. Consequently, state-owned firms may be in trouble in the long term.

Since the GGIF has largely failed to attract capital from the private sector, the central role of the state in this new approach has blurred the distinction between GGIFs and traditional state investments to some extent despite the market-oriented design of this policy tool. In this sense, more empirical studies are needed to fully understand and evaluate the GGIF as a new financialised tool. For instance, the effectiveness of this policy tool remains to be seen. The relationship between state-owned firms and governments is not clear in the GGIF settings.

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[79] Peck 2016: 239.
[80] Peck 2016.

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Biographical note

Fenghua Pan is Associate Professor at Beijing Normal University. He was Research Associate of the above-mentioned ESRC project at University College London, and his research interests are Chinese financial geography.

Fangzhu Zhang is Associate Professor at University College London. Her research interests include China's innovation and sustainable development.

Fulong Wu is Bartlett Professor of Planning at University College London. His research interests include urban development in China and its social and sustainable challenges.

摘要：政府的金融化日益成为全球性趋势。基于"政府主导的金融化"这一概念，本研究首次考察了政府引导基金在中国产生并扩散到全国各地的过程。中央政府的一系列政策倡导以及率先垂范成立若干基金，为政府引导基金的发展奠定了基础。地方政府迅速接受并采纳了这一新的金融化政策工具，从而带来其广泛传播。大量国有企业深度介入了政府引导基金的设立和运营，从这个角度看，意味着政府引导基金吸引社会资本的初衷并没有实现。该研究表明，与西方国家的情形不同的是，政府主导的金融化在中国进一步增强而非减弱了政府在经济活动中的影响力。然而，政府引导基金这一金融化政策工具的局限性和潜在风险也与政府和国有企业在政府引导基金中的绝对主导地位高度相关。

关键词：政府主导的金融化；政府引导基金；产业发展政策；城市发展；国有企业