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The state in global capitalism before and after the Covid-19 crisis

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ABSTRACT
The Covid-19 crisis has once again brought the role of the state in the capitalist economy to the fore. Rather than viewing this as a 'return of the state', this article conceptualises the current dynamic in terms of a reconfiguration of the roles the state plays, distinguishing between a market-creating, a market-correcting, a market-intervening, and a market-directing role, with each role having both an internal and an external dimension. This conceptual mapping of the diversity of state-capital configurations is then applied to offer a novel reading of the recent capitalist state trajectories of the US and of China. We conclude that there is – notwithstanding persistent differences – a relative convergence inasmuch as the still strongly market-directing Chinese state also has at the same come to embrace a global market-creating role, while the US is now also showing signs of a stronger emphasis on market-direction.

KEYWORDS
State; capitalism; US; China; markets; crisis

Introduction

At the height of the first wave of the coronavirus pandemic, in April 2020, the *Washington Post* wrote that 'the role of government has changed overnight' (Balz, 2020), while the magazine *Foreign Policy* concluded that '[w]e are all statists now' (Crabtree et al., 2020). In fact, many analysists and pundits around the world have been predicting the 'return of the state' after what is generally seen as many years of neoliberal retreat. Indeed, we have seen a wave of massive state intervention around the world in response to the economic fallout of the pandemic (in part because of government's own public health measures), with governments taking unprecedented fiscal measures to prevent complete economic collapse and stimulate recovery. The IMF (2020, p. 1) has estimated that total, worldwide fiscal measures in response to the Covid-19 crisis as of September 2020 amounted to $11.7 trillion globally, or close to a staggering 12 percent of global GDP, and by far surpassing government spending in response to the global financial crisis. The Covid-19 crisis also sparked renewed discussion about states needing to play a

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more strategic, directive role in the economy, with analysts expecting a 'return' of industrial policy (Crabtree et al., 2020).

It thus appears that a key dimension of how the world is being transformed because of the pandemic is how the role of the state within the capitalist market economy is changing. However, we need to put these developments into perspective, both historically and conceptually. The 'return of the state' has been proclaimed before. Ten years ago, in the midst of the previous crisis, analysts also claimed that with the collapse of 'self-regulating' financial market big government was back, as was industrial policy (e.g. Rodrik, 2012). Additionally, Western academic and other analysts back then also identified the rise of China and other 'emerging' non-Western competitors in terms of the 'return of state capitalism' or the 'rise of a new state capitalism' (Bremmer, 2010; Economist, 2012; see also McNally, 2012), usually framed as a major challenge to 'the free market model' of the West (Kurlantzick, 2016, p. 23). Indeed, as Alami and Dixon argue, while such narratives 'construct the abnormality and alterity of state capitalism in reference to a presumed universal template of capitalist organisation which dominates in the West' (2020a, pp. 2–3), underlying this have been real geopolitical and geo-economic power shifts – accelerated by the global financial crisis (van Apeldoorn et al., 2012) – in the global political economy.

So, if the 'state' is back, it seems as if it has been back already for a while. In fact, the capitalist state is always there, and not just in the background, and necessarily so. However, what does change is *the kind of roles* the state plays vis-à-vis the market and within capital accumulation. As we concluded in an article co-authored with Henk Overbeek written nine years ago, despite the crisis of the neoliberal, finance-led growth model, and in spite of the rise of rival centres of accumulation, the 'reconfiguration of state power [which we then observed] within capital accumulation – or for that matter a demise of Western dominance – does not necessarily obstruct or contradict a deepening and widening process of global commodification and marketisation' (ibid., p. 483).

This does raise the question, which we seek to answer in this article, whether this conclusion still holds in the wake of the current crisis or whether we may see a reconfiguration of state power that implies a more fundamental break with market-making neoliberal globalisation. Our answer will be that while it is naturally hazardous to make any predictions during an ongoing crisis, we do see a shift that goes beyond what we observed in the first years after the global financial crisis. This does not necessarily mean the end to ongoing commodification and marketisation, but it does mean that it tends to take place in different ways, beyond neoliberalism, combining market-making more forcefully with other roles of the state, sometimes also contradicting a market-making logic. Critically, this shift *preceded* the outbreak of the pandemic and the massive state interventions that followed. Rather than causing these transformations, the Covid-19 crisis is magnifying and accelerating them. It is therefore that this article seeks to put this crisis in a longer-term perspective by looking at trends and shifts over the past decade. Our key conceptual point remains that we cannot understand these shifts in terms of any mythical return of the state or a misleading dichotomy between 'state-led' and a hypothetical 'stateless' economy, but only *as a reconfiguration of the various roles states play (and always have played) within and vis-à-vis (global) capital accumulation and capitalist markets*. In particular, we distinguish a market-creating role, a market-correcting role, a market-intervening role and a market-directing role.

Here our main argument will be that we can observe a re-configuration that implies a shift away from a strong emphasis on the market-making role of the state, an emphasis that we see as characteristic of neoliberal globalisation, towards a more pronounced presence of other roles of the state, in particular what we identify as market direction, but still in combination with market making. It is this combination that we observe in the political economies of both China and the US, implying, although with still important structural differences, a relative convergence between the two.

This article is organised into two main parts. Building upon our earlier work (van Apeldoorn et al., 2012), the first part offers an analytical framework in which we conceptualise the abovementioned four roles that states in our view play within capitalism. Crucially, we analytically distinguish both an internal and an external dimension with respect to each of these four roles – together offering a novel conceptual mapping of the diversity of state-capital configurations. In the second part of the article, we employ our framework to analyze the reconfiguration of these four roles of the state – and their internal and external dimensions – in the two largest capitalist economies, that of the US and of China. Here we offer a novel reading of the recent capitalist state trajectories of the US and China – in particular since the global financial crisis and up to the current Covid-19 crisis – by interpreting changes in these political economies in terms of a reconfiguration in the roles these states play in their own and in global markets. Here China can be seen as the most important and paradigmatic case of the expansion and integration of the more 'statist' non-Western economies, often characterised as illiberal, into global markets – transforming the role of the state in the global political economy as a whole. The US, on the other hand, is of course (still) the leading liberal market economy that has been the global champion of market-creation for many decades. Yet, we shall argue that against the background of successive crises of (global) capitalist accumulation, and in the context of renewed geopolitical rivalry due to the rise of 'statist' China, the US in recent years has been showing signs of a stronger emphasis on market direction, while the quintessential market-directing Chinese state also has at the same time come to embrace a critical market-creation role at the global level. The article thus concludes that we can observe a relative convergence between the US and China in terms of the roles played by their respective states, and generally that in this sense we are, more than we could observe in the years after the financial crisis, indeed moving beyond the kind of neoliberal market-making globalisation of the past decades towards a new configuration in which market-making continues, but is more strongly combined with other roles of the state, in particular market direction.

Towards a comprehensive understanding of the internal and external roles of the state in capitalist markets

If we want to understand the role states can play within capitalist economies, we need to first of all view the state not as something external to the latter, but see how political rule on the one hand, and production and market exchange on the other, are internally related within capitalism. This means that it is misleading to frame 'the power of the state' and 'the power of markets' as opposites (with, if the one is rising, the other necessarily waning). The role of the states and state power on the one hand and markets on the other have of course long been discussed in especially the field of International Political

Economy (IPE), but as McNamara and Newman (2020, p. 70) write in a recent piece on the transformation of global politics post-Covid, over time 'conventional IPE largely came to accept a view of markets that decoupled them from state power'. In contrast, the point of departure for this article is that state power cannot be abstracted from the private power of capital (van Apeldoorn et al., 2012, p. 472). Indeed, we cannot abstract the state from society more generally, while recognising that society is a capitalist one, a social system 'driven to expand and dependent on expansion' (Streeck, 2012, p. 4). Structurally, the capitalist state is dependent upon successful and sustained capital accumulation, both to finance its activities and for the legitimacy of its power. However, the other side of the coin is that *the state is indispensable for capitalist markets* to exist and or to be reproduced (see also van Apeldoorn & Horn, 2007). And this indispensable role of the state goes beyond guaranteeing and protecting property rights and performing other functions of the 'minimal' state dreamed up in liberal utopias. We distinguish between four different roles of the state within and vis-à-vis markets and hence vis-à-vis capital (see also van Apeldoorn et al., 2012):

(1) market creation: *acts by the state that allow markets to emerge and make possible their (continued) functioning;*
(2) market correction: *acts by the state that correct market outcomes and constrain market forces on a durable basis;*
(3) market intervention: *acts by the state that temporarily intervene in the market in order to respond to a crisis, seeking to overcome that crisis, often with the overriding aim of restoring (private) capital accumulation;*
(4) market direction: *acts by the state that seek to direct markets towards certain desired longer-term outcomes and purposes by steering the accumulation process itself.*

In our conceptualisation, crucially, these roles not only overlap, but also *co-exist* in any concrete capitalist state. That is to say, states always simultaneously play all of these four roles to some extent. What differs across time and space is the way these particular roles are combined, how they are moulded by political agency, and which role or roles at any particular time may gain more prominence.

While it is beyond the scope of this article to offer a full theoretical account of why and how the roles of states vis-à-vis markets and within capital accumulation change over time, we do see these changes as bound up with deeper processes of social and political change arising out of the contradictions of what we have earlier called the state-capital nexus (Van Apeldoorn et al., 2012). We will now elaborate on each of these four roles, and explicitly identify an *external dimension* to each of them. The distinction between internal and external is an analytical one. In practice the boundaries between these two dimensions are often blurred. Any domestic economic policy – e.g. (de-)regulating, or intervening in one's domestic market – often has effects on other states (especially in the case of major economies). Yet, it makes a difference whether or not a state consciously seeks to shape foreign markets, or the global market as a whole, or how actors operating within its own jurisdiction (are allowed to) interact with actors outside its borders (e.g. through the imposition of tariffs or the banning of certain imports).[1]

Market creation

The first role of market creation is fundamental since states can only play any other role vis-à-vis markets after they are first created, and subsequently reproduced, a process in which, as Polanyi (1957) brilliantly showed, state power plays a critical role. While markets have existed long before capitalism, the latter system involves what Polanyi called the subordination of 'the substance of society itself to the law of the market' (1957, p. 1), a process historically brought about by the state; in particular by the creation and reproduction of what he (ibid: 68–76) called the fictitious commodities of land, labour and money. Furthermore, commodities can only be exchanged on markets if they have owners, so states need to create and enforce property rights and contracts based thereon. Indeed, commodities and property rights are sometimes indistinguishable such as with intellectual property or shares or other legal titles that exist and can be exchanged as commodities, by virtue of state regulation. States also need to ensure sufficient competition, and provide rules that define who can transact with whom and the conditions under which transactions are carried out (see also van Apeldoorn & Horn, 2007, p. 215). From this perspective, the neoliberal project – which we conceive as a political project to restore and entrench capitalist class power after the economic and social crises of the 1970s and which rose to hegemony in the two following decades (van Apeldoorn & Overbeek, 2012, p. 4) – should not be seen in terms of a retreat of the state, but re-emphasising its fundamental role of market creation (see also Harvey, 2007), and a partial rolling back of the other roles, even if these have never fully disappeared.[2]

The *external dimension of market creation* above all is evident in attempts of states to expand global markets and open their own and/or foreign markets. This can be done by promoting free trade, but also by furthering the adoption of liberal, market-enabling, institutions such as property rights and the rule of law ('good governance') or the adoption of (neo)liberal, market-friendly policies ('the Washington Consensus'). Here after 1945 the US of course has played a leading role as the 'maker of global capitalism' (Panitch & Gindin, 2012), pursuing a strategy of what has been called Open-Door globalism (van Apeldoorn & de Graaff, 2016). During the post-war decades this role was still combined with strong elements of domestic market correction (see below), but from the 1980s onwards the US promoted a much more unrestrained economic liberalism. Any state can, however, contribute to the process of global marketisation, also beyond being forced or 'incentivised' by more powerful states, by *choosing* to open their own markets to foreign trade and investment.

Market correction

Given what in standard economic theory is recognised as the need to correct for 'market failures', and to provide for 'public goods', even in the most liberal political economies states play some *market-correcting* role. However, under particular historical conditions such a role may go further in mitigating the socially (and increasingly apparent ecologically) destructive effects of markets. This is clearly illustrated by Polanyi's account of what he called the 'double movement' (1957). Here the 'self-regulating market' was in a dialectical fashion revealed for the 'utopia' that it is, and capitalist states – reflecting a new balance of social forces – came to act upon the 'principle of social protection' by reining in market forces, or even taking a particular sector or social sphere out of the market altogether (decommodification). Market correction here can for instance take place through redistributing income via progressive taxation financing a decommodifying welfare state.

The *external dimension* of market correction is apparent when states seek to shield their economies or specific industries – and possibly those of other states – against global market forces. For instance, by imposing tariffs or restricting the inflow of foreign investment. States may also seek to reduce the degree to which their own firms engage in global expansion through e.g. offshoring. In that sense, this is the opposite of the external dimension of market creation and can be seen as 'correcting' for the outcomes of the global capitalist market. External market correction may also involve the restriction of the in- an outflow of financial capital, for instance through imposing capital controls. Beyond economic protectionism the external dimension of market correction finally may also be seen in terms of states cooperating to create for instance particular international labour or environmental standards that thus restrict and correct markets through global governance.

Market intervention

As capitalism is essentially about the endless accumulation of capital but as this process is far from assured and subject to recurrent crises arising out of its contradictions, the state also needs to *intervene* if the process of capital accumulation (temporarily) breaks-down and capital cannot restore accumulation on its own. Such interventions in the market by the state can temporarily create tensions with the private nature of capital accumulation and with the free market, even if paradoxically these interventions are intended to restore capital accumulation and 'save' the market. The role of market intervention partly may overlap with that of market correction but the motives, nature, and temporal dimension of government policies involved are different. Market correction takes place through government regulations and policies that operate on a more or less permanent basis, and during the normal operation of the market. We see intervention on the other hand as involving crisis and support measures that often require new, but temporary rules or laws. The Covid-19 crisis is an example of what started out as a public health crisis to which states responded by unprecedented government intervention by partially suspending markets through so-called lockdowns, but then also sought to prevent complete economic collapse and restore private capital accumulation. In the literature, Keynesian intervention in the business cycle through fiscal and/or monetary policy is arguably the most commonly recognised form of government intervention. However, to the extent that Keynesianism, such as was the case during the post-war era (Hall, 1989), becomes a policy paradigm informing a continuous demand management it is in our framework more properly regarded as a form of market correction (and hence can be seen as falling in between the two roles, depending on the context).

The *external dimension of market intervention* is less obvious inasmuch as states usually only intervene in their own markets. But such intervention may sometimes be the result of international coordination, such as – although this happens only rarely – a coordinated action of central banks or a coordinated fiscal stimulus by governments (within e.g. the G-20) in response to a global economic crisis.

Market direction

Finally, the state may also deliberately *direct* the capital accumulation process and capitalist markets, by involving itself in the allocation of capital. While this role again in practice can overlap with the other roles, the distinguishing characteristic is that this role is intended to be strategic and long-term. Critically, rather than leaving investment decisions wholly to the market and to private entrepreneurs, the state itself makes or at least directs these decisions. For instance, through industrial policy picking particular winners through e.g. state aids, or through the development of new technologies, playing the role of what Mazzucato (2013/2018) calls 'the entrepreneurial state' (see also Block & Keller, 2015; cf. Weiss & Thurbon, 2021)[3] Another major form of state direction is state ownership, which can range from complete to partial state ownership and to state-owned but independently run firms. While currently most pronounced in the 'new state capitalism' of rising powers, such as China, this type of state direction can in fact be observed to varying degrees and in different ways in all capitalist states (Alami & Dixon, 2020b; Babic et al., 2020; de Graaff, 2020).

The *external dimension* of *market direction* can be defined as activities of the state that involve the direction and control of the accumulation process beyond its own borders. This can be done directly through (partially) state-owned enterprises, Sovereign Wealth Funds or other forms of international investment by a state (such as international grants or loans). More indirect expressions are the support of particular domestic corporations in their foreign activities through subsidies, loans, or diplomatic backing, what earlier we have, following Gerstenberger (1973), called the state's role of the 'external representation of capital' (van Apeldoorn et al., 2012). This role can also be seen as referring to the external dimension of an industrial policy aimed at enhancing the external competitiveness of particular firms, and thus interfering with and shaping, rather than merely enabling, the private accumulation process. As such, an external strategy of market direction may also involve the global activities of (partially) state-owned enterprises supporting these in their outward expansion. Such a strategy of external market direction (while arguably constituting neo-mercantilist practices) can go very well together with global market creation, as these companies by expanding are also integrating into transnational circuits of capitalist production and finance (Babic et al., 2020; de Graaff, 2020; de Graaff et al., 2020; Nölke, 2014).

Having laid out conceptually how we can understand the changing roles of the state with respect to capitalist markets and within capital accumulation we will now briefly examine the two cases of the US and China. The US case here can be taken as the primary example of a *liberal* political economy, whereas China is seen as a *statist* political economy (de Graaff & van Apeldoorn, 2018). As our analysis will show, in both cases the four roles identified do not only co-exist, even if there are tensions between them, but seemingly opposing roles can come to the foreground at the same time. Indeed, the Chinese case will show that although the common perception of China as a 'statist' economy is not necessarily incorrect, this is certainly not to the exclusion of market dynamics and profit making. Despite a substantive remaining share of state-ownership in the economy and industry (Kurlantzick, 2016), this 'statist' characteristic may rely less so on ownership features per se and increasingly on the pervasive controlling function that the (party) state has – and remains to have – simultaneously to its market-creating and market-reproducing role. It is precisely the co-development of increasing market mechanisms *and* state-control that characterises the Chinese state-capital nexus. And while China partly embraced neoliberal globalisation, it never succumbed to it fully, as its contested journey of economic reforms since the 1980s testifies (see for in-depth analyses e.g. Weber, 2018, 2021).

But we will first discuss the US case, which will show that although the US has been the state leading the world towards more global marketisation and commodification, creating and expanding markets and home and abroad, this has not been to the exclusion of other roles. Moreover, and significantly, while the relative emphasis on the market-creating role of the US state under neoliberalism has persisted until after the global financial crisis, in the context of rising rivalry with a China and arguably reinforced by the Covid-19 crisis, the US capitalist state is now undergoing another reconfiguration in which its market-correcting and market-directing roles are also coming more the fore again.

The changing role of the state in the US from the global financial crisis to the Covid-19 crisis

Both *internally* and *externally* the historic role of the US state has above all – but by no means exclusively – been one of *market creation*. From the end of the nineteenth century onwards US ruling elites pursued an 'Open Door' imperialism aimed at opening foreign markets and thereby exporting its surplus goods and capital, a global strategy that became institutionalised after WWII with the creation of a US-led liberal world order (van Apeldoorn & de Graaff, 2016, ch. 2). After the Great Depression and into the 1970s, the role of market creation and reproduction was increasingly combined with market correction and intervention, such as the development of a Keynesian welfare state at home, and the 'embedded liberalism' of the Bretton Woods regime abroad. Regarding the *market-directing* role of the state, the US has, notwithstanding its professed commitments to free markets and free enterprise, as Mazzucato (2013/2018; see also Block & Keller, 2015) has convincingly argued, in the post-war era played a significant role through huge state investments in particular technologies, enabling at a later stage the enormous private accumulation of companies like Apple (ibid: ch. 5). However, this largely unknown success story of the 'entrepreneurial state' was discredited in later neoliberal years, with any such activities framed as big government standing in the way the innovation of free market capitalism. From the 1980s onward the role of the US capitalist state became in fact characterised by a renewed emphasis on the creation (expansion and deepening) of markets, both at home, and abroad (on US neoliberalism see e.g. Harvey, 2007).

After the financial crisis: state intervention but no durable strengthening of the market-correcting role

The global financial crisis exposed the neoliberal myth of the self-regulating market, but within the context of the ensuing crisis of the neoliberal project, neoliberal policy practices proved to be remarkably resilient, especially in the US (van Apeldoorn et al., 2012; van Apeldoorn & Overbeek, 2012). While seeking to fix the financial system and achieve economic recovery through a massive fiscal stimulus, the Obama administration, which came to power in the middle of the crisis, did not fundamentally break with neoliberalism, but rather sought to not just rescue markets through state intervention, and do so in a way that the confidence of (financial) markets was restored. Top economic adviser (and former Treasury Secretary), Larry Summers, made clear that interventions in the financial markets, were to be not only 'temporary', but also 'based on market principles, and minimally intrusive' (Summers, 2009), hence rejecting a more sustained correction that would have significantly restrained financial markets. In fact, more radical forms of both market-*correction* and *intervention* in response to the crisis were rejected as, as Obama explained referring to the Swedish experience of bank nationalisations, the US had a different culture 'in terms of how the government relates to markets', adding that 'we want to retain a strong sense of *that private capital is fulfilling the core-core investment needs* of this country' (Obama quoted in Tooze, 2018, p. 294, our emphasis). Any correction of the growing socio-economic inequality, which continued to grow under Obama, had to come with investing more in people's abilities to adapt to the exigencies of neoliberal globalisation (van Apeldoorn & de Graaff, 2017).

Externally, the role of the state during the Obama years also remained firmly oriented towards further expanding and deepening global markets, premised on the belief that US growth was directly dependent upon 'opening markets around the globe' (White House, 2010, p. 32). This translated into a very ambitious trade and foreign investment agenda, with the Transatlantic Trade and Investment Partnership (TTIP), and even more so the Trans-Pacific Partnership (TPP), becoming the administration's two flagship trade initiatives (van Apeldoorn & de Graaff, 2016, p. 2017).

Enter Trump: domestic deregulation, and neo-mercantilist correction of global markets

Ironically, one had to wait for a billionaire real estate mogul winning the White House, to make for a more real, *if still only partial*, break with neoliberalism. Riding a wave of popular discontent, partly fuelled by the continuing economic stagnation of most Americans 10 years after the crisis, Donald Trump was elected after an effective campaign railing against aspects of neoliberal globalisation (Schmidt, 2017). On this basis one might have expected the Trump presidency to adopt a strongly market-*correcting* role of the state. That did not materialise, however. Instead, Trump and his 'pluto-populist' (Pierson, 2017) administration, in their domestic economic policies focused on implementing a huge tax cut for corporations and for the 1%, as well as implementing a radical deregulation agenda aimed at *reducing* the *market-correcting* role of the US state, and simultaneously enhancing its *market-creating* role, as e.g. environmental and labour protection offered by the 'administrative state' were seen as an '*intrusion* on the freedoms of private citizens and enterprises' (Belton & Graham, 2019, p. 815, original emphasis).

With regard to Wall Street, Trump – rather than taking on the financial elite – in fact reversed some of the rather modest attempts at financial market re-regulation of his predecessor (Herbert et al., 2019, pp. 80–81). All this points rather to a continuation under the one-term president of a strong emphasis on the market-creating role of the state that we identified as characteristic of the neoliberal project. Nevertheless, the Trump presidency *does represent a break* with neoliberalism, and a neoliberal role of the state aimed at creating, expanding and deepening markets, in one important respect, that is, with regard to the external dimension. Here we have seen a rather massive intervention through tariffs and other forms of protectionism and mercantilism, which, inasmuch as they were intended – which clearly seemed to be the case – as more durable policies, can also be seen as an attempt to institute a new form of *external market-correction* that sits at odds with the neoliberal drive for external market-making, that is, promoting global market integration through liberalising trade and foreign investment. Indeed, with the argument that this treaty would only help China 'to steal our jobs', Trump withdrew from Obama's signature free trade initiative (and focal point of his administration's drive for external market-making), the TPP, on the first day in his office, and two years later started a trade war with China.

While the latter can be seen as a temporary interference with global free markets in order to force China to change some of its perceived unfair practices, and thereby reduce America's trade deficit, it is clear that it was actually informed by a more general economic nationalist outlook, and a subsequent attempt to redefine the role of the American state in global markets. A role in which according to Trump's Trade Representative, Robert Lighthizer (2020a, p. 92), American foreign economic policy should follow a path 'somewhere between the openness of the 1990s and the barriers of the 1930s'. In language reminiscent of leftist critiques of economic globalisation, Lighthizer argues that the free trade globalism of previous administrations, and its associated promotion of the offshoring of US capital, which was '[e]gged on by Wall Street analysts and management consultants', has been good for 'higher profits' for corporations and their shareholders, but 'traumatic' for America (Lighthizer, 2020b). While one should not necessarily take such rhetoric at face value, it does underline how Trump and Trumpism can also be seen as a response to the failures of the overriding market-creating role the US state has been playing in the past decades. But rather than taking on the internal dimension of this role, it has exclusively focused on correcting for its external dimension.

The latter must – beyond being a manifestation of a populist backlash against globalisation and globalism (Steger, 2019) – also be seen as a response to the ongoing global power shift. Here, the rise of China is increasingly perceived by Washington elites not any longer as a *potential* threat to be managed by seeking to incorporate China into the liberal order as was still the case in the 1990s and 2000s, but increasingly as an *actua*l threat to be countered.

Towards a more state-directing role of the US capitalist state?

In fact, Trump's neo-mercantilist foreign economic policy was not limited to the imposition of tariffs. Combining – in a typical mercantilist fashion – arguments about national wealth with arguments about national security, Trump also launched a 'tech war' with China, targeting the global investments of leading Chinese tech companies – most notably Huawei – that are seen as operating within strategic sectors. According to one analyst this amounts to a policy that 'rests on restricting the flow of technology to China, restructuring global supply chains, and investing in emerging technologies at home' (Segal, 2020). Referring to the coronavirus pandemic as reinforcing this argument, Lighthizer (2020a, p. 87) emphasised the need to 'maintain and grow [the US's] manufacturing base'. In a similar vein, the influential (neo-)conservative Republican senator, Mario Rubio (2019) has singled out the outsourcing of manufacturing as a potential threat to 'our national interest and the common good'. As such, Rubio advocates a 'pro-American industrial policy' (ibid.), arguing also that the Covid-19 crisis has left America 'scrambling because we by and large lack the ability to make things, as well as the *state capacity needed for reorienting production* to do so' (Rubio, 2020, our emphasis). Significantly, all of this is framed as in direct response to China and its state-directing policies, with the US state exhorted to invest in 'in essence, the same industries China is trying to dominate via their Made in China 2025 initiative' (Rubio, 2019).

The translation into concrete policies has as under Trump at best been incomplete, as his administration largely opted for a combination of market-making domestic deregulation with market-correction through external protectionism. While the Covid-19 crisis has reinforced calls for a strong industrial policy, the rather chaotic response of the Trump administration to the pandemic arguably did not leave much room for longer-term strategic thinking. Of course, the US state under Trump did, like many states of advanced capitalism, massively intervene in markets to prevent a complete economic breakdown through what in fact became the largest federal stimulus and rescue package in history of US$ 2.2 trillion (almost three times larger than Obama's stimulus package adopted after the financial crisis), and later another stimulus bill of US$ 900 billion at the very end of his presidency. However, the former rescue package has also been criticised – rather than leading to internal *market-correction* – for further deepening the inequalities exposed by the pandemic by offering further tax breaks for corporations and for the one percent (Politi et al., 2020). Under Trump, then, the massive market *intervention* was arguably above all aimed at restoring private capital accumulation. In sum, under Trump the newly configured roles of the state have seen a combination of continuing market creation internally, and a neo-mercantilist market correction externally, with, in the context of the ongoing Sino-US geopolitical rivalry and amplified by the Covid-19 crisis, a tentative strengthening of the market-directing role of the US state. Indeed, the latter points to the fact that while protectionist, Trump's variety of neo-mercantilism went hand in hand with a continuing projection of US global power, including its economic power (Helleiner, 2019), and hence must not be seen as isolationist.

While the new Biden administration has ideologically recommitted to liberal globalism (breaking with Trump's 'America First'), it thus far shows some strong continuities with Trump as well, indicating a consolidation of the reconfiguration of the roles the US state plays in its and in the global economy that we observed in the past few years. At least, there will be a strong push to take it further into a direction beyond neoliberal market-making. Beyond continuing with a reinforced market-intervening role with another enormous (US$ 1.9 trillion) stimulus plan in the context of the (recovery from) the Covid-19 crisis, the internal market-correcting role of the state is also intended to be strengthened through Biden's *Build Back Better* social spending plan, even if that plan at the time of writing has been significantly watered down in Congress, and the originally planned spending of US$ 3.5 trillion over a 10-year period cut in half (arguably showing the still strong limits in the US with respect to pursuing more progressive, and redistributive domestic economic policy). With regard to the external dimension of market-correction it is striking that Biden has as of yet reversed none of the tariffs Trump had imposed on China. Perhaps most significant, however, is the further strengthening of the market-directing role of the American state under Biden. Industrial policy is explicitly embraced, and funded as part of the new infrastructure bill or 'American Jobs Plan' of 1.2 US$ trillion over 10 years – centred around, as Biden's national security adviser Jake Sullivan before the election put it, large-scale state-led 'missions', breaking with the neoliberal 'economic ideology of the past decades' (Harris & Sullivan, 2020). The internal and external dimensions are clearly interrelated here, with the need to revitalise American manufacturing and for investment in the 'technologies of the future' being justified both in terms of domestic economic needs (jobs), and with reference to direct competition with China, economically as well as geopolitically (Biden, 2021a, 2021b).

The changing role of the state in China's transnationalizing state-capitalism

The Chinese political economy is generally seen as one of the most characteristic examples of a state-*directed* capitalist market. Yet, China's exponential economic growth and the subsequent globalisation of its economy, since the 'Opening Up and Reform' under Deng Xiaoping in the late 1970s, has of course in the first place involved a *market-creating* role for the Chinese Communist party at a scale unprecedented in capitalism's history. This has catapulted China from a closed economy of barely two percentage share of the worlds GDP in PPP (OECD, 2013) to become the largest economy in the world in PPP in merely four decades, with a 19 percent world share in 2018 (World bank, 2019). The *internal* dimension of this market creation has involved waves of economic reform (Chen & Naughton, 2017; Dickson, 2008; May et al., 2019, Weber, 2018, 2021), which have increasingly opened up vast domains of China's economy to the market, and has transformed a large share of China's industry and production from state-owned to private, as well as created many hybrid forms of ownership (e.g. de Graaff, 2020; Dickson, 2008; Milanovic, 2019; ten Brink, 2019).[4]

Market creation with Chinese characteristics from Deng's 'open-door policy' to 'going global'

The *external dimension* of the market creating role has also played a crucial role in China's economic growth and capitalist development, one primary instrument being both inward and outward FDI (Chen, 2017; Chen et al., 1995; Lardy, 1995). With regard to the former, this form of market creation took off from the late 1970s and Deng's 'open-door policy' and has continued in various phases and with ebbs and flows until the present (Chen, 2017).[5] The creation of special economic zones (SEZs) along the East coastal provinces in the 1980s was a key instrument in this regard. These commercial enclaves, organised to optimise and experiment with free-market mechanisms and the attraction of foreign investment, have been key drivers of growth and private capital accumulation.

Subsequently, China has gradually and substantively – although in a much more controlled pace and manner than what would be preferred by Western powers – opened up to inward FDI through the implementation and endless adaptation of laws and regulations (e.g. Chen, 2017; McNally, 2020; UNCTAD, 2020). Though frequently criticised for its lack of reciprocity and unfair level playing field (e.g. EU Chamber of Commerce in China, 2017), this gradual opening up has been continuing throughout the different leadership regimes and also under Xi Jinping.[6] Financial markets have also been gradually liberalised in the past decade(s), significantly also as part of the US–China phase one trade deal (Zhou, 2020). However, China's much debated strict capital (account) controls are still in place, and have even tightened lately, limiting cross-border financial transactions and controlling overseas investments (as well as the size of foreign exchange reserves and the yuan exchange rate), which highlights the Chinese states' market-correcting role (Petry, 2020).

The external dimension of market creation and market expansion started off most evidently with the so called 'Going Out' strategy initiated by Jiang Zemin around the turn of the millennium, which implied the creation of Chinese 'National Champions' that were subsequently encouraged to venture abroad, invest, acquire, and engage in collaborations. In first instance this concerned the restructured and often listed subsidiaries of SOEs, but also increasingly private TNCs, entrepreneurs, and investors (de Graaff, 2020; ten Brink, 2019). The Chinese party state is clearly acting as a direct agent in capital accumulation in these cases, i.e. what we have called 'market direction', through direct ownership in the case of SOEs and SWFs, and through subsidies to Chinese firms and sectors via state-owned banks. Yet, the state's primary aim is to create conditions for China Inc. to 'enter global markets as profit-driven actors' (Jones & Zou, 2017, p. 755). In addition, the share of private capital in the total value of investments abroad, as well as the number of private firms going abroad, has increased over time (Kratz et al., 2020). This vividly illustrates the *market-directing role* within *market expansion* and *creation,* which typifies China.

The Chinese Communist Party state has also been recurrently correcting and constraining the market forces it unleashes, both internally and externally. The economic reforms since the 1980s have thus been characterised by a movement of decentralisation and recentralisation (Chen & Naughton, 2017; May et al., 2019; ten Brink, 2019; Weber, 2018, 2021) – the latter which can be seen as internal market correction. Yet, while these policies and regulations are all aimed at correcting for excessive and detrimental effects of market forces and protecting sustainable (private) capital accumulation, the social protection and welfare state policies that have accompanied this role in many liberal political economies have been generally less developed in China, which for instance has one of the most severely neo-liberalised labour markets in the world (McNally, 2012, 2020; Milanovic, 2019; ten Brink, 2019). In fact, the decrease of state-owned industries – which are traditionally tasked with the social welfare of their employees – has actually led to a significant decrease in the welfare protection (Milanovic, 2019). Polanyi's double movement in this sense never – at least not yet – materialised in China. China's overall strategy instead seems to be to gain and maintain legitimacy and support for its political regime and leadership through the relative improvements in living standards and socio-economic mobility generated by exponential and continued growth, combined with a repressive state-security- surveillance apparatus. However, the recent policy focus of the Chinese leadership on what has been coined 'common prosperity', aimed at addressing the excessive wealth gap and economic inequality inside China, may be interpreted as a market directed response to counter the detrimental effects of market forces in China.

The duality of market creation and direction under Xi: from BRI to dual circulation before and after Covid-19

The latest grand project of market expansion is the Belt and Road Initiative (BRI) launched in 2013 as 'the New Silk Route' by Xi Jinping and gradually turned into a signature project of his foreign policy (Du & Zhang, 2018; Huang, 2016). Aimed at sustaining China's economic growth (Huang, 2016) through this external market expansion, the BRI serves to export excess capacity of the SOE-dominated industries such as steel, coal and shipbuilding (Hung, 2021), while also inciting economic growth in the underdeveloped inner regions of China (i.e. internal market creation). In addition, through the BRI the Chinese leadership aims to increase international economic cooperation and hopes to both stimulate reform and innovation of the Chinese SOEs and gain knowledge and expertise through the participation and involvement of (foreign) private capital and firms. This will also support the transition away from an export-led growth model by moving higher up the value chain. In the latter sense it aligns with the controversial 'Made in China 2025', an industrial policy strategy for China to become an independent world leader in cutting-edge technology and expertise, for which acquisitions of and joint ventures with foreign companies were seen as crucial (Henderson & de Graaff, 2021). The BRI, finally, aims to promote a development model based on infrastructure investments and development, modelled after its own image (Huang, 2016). The BRI thus encapsulates the very distinctive way in which the Chinese party state aims at the co-evolution of market creation (externally and internally) with state direction, although not through state-ownership alone or per se. This state-directed characteristic is also what distinguishes Chinese global market making from the neoliberal globalisation role that characterised US Open Door globalism in the past decades (van Apeldoorn & de Graaff, 2016).

While intervening in the market in response to perceived or real crises or aberrations is perhaps emblematic in the case of China, the response to the Covid-19 crisis revealed this *market intervention* role in a powerful way. Although it failed dramatically in the very first phase of the outbreak, the Chinese party state took the lead in first providing the most extensive lockdown in the world and history, and subsequently kick-starting the economy through massive central bank guided stimulus focusing on investments in infrastructure and real estate, tax cuts, and employment subsidies (to prevent mass lay-offs). Although these intervention measures have been criticised for their lack of relief and support to consumers and smaller enterprises, and for disadvantaging the poor and migrant workers, leading to a two-track economic recovery and widening economic inequality (Yu & Yang, 2020), the Chinese economy has been recovering faster than expected, and ahead of the Western world (International Monetary Fund, 2020). While domestically it did help to largely restore and even boost the faith in the leadership and the party(state), and thus its legitimacy; internationally the Covid-19 crisis and China's responses arguably served to deepen and accelerate existing divisions and a souring of Sino-Western relations.

In light of these external challenges combined with the internal challenges to continued growth (e.g. rising debt, a rapidly aging population, and growing inequality) the Chinese leadership has coined a new strategy aimed at expanding domestic and global markets simultaneously whilst becoming more self-reliant without closing the doors to foreign business and investments. The essence of this new strategy – of which Liu He, Xi's top economic adviser and Vice-Premier is the main architect – is captured by the newly coined Dual Circulation Strategy (DCS), laid down in the 14th Five-Year Plan (2021–25).

What is implied by the so-called internal circulation is an increased emphasis on domestic drivers for growth and consumption, a shift that actually set in under Hu Jintao. This does not, however, imply an intention to become isolationist or self-sustaining. In fact, Xi, when launching the strategy stressed the need to keep opening up and keep collaborating with external countries and actors, and thus sustain the 'external circulation' and China's integration into the world economy: 'An important driving force for our country's sustained and rapid economic development is opening up. Opening to the outside world is a basic national policy' (Xi, 2020). In order for this to succeed, the commitment the Chinese leadership has made in the 13th Five -Year Plan to give the 'market the decisive role in resources allocation' should be pursued, but also needs the government to play a greater role (ibid). While these proposals are still in the midst of translation into actual policies, the overall strategic and longer-term direction seems to indicate that the co-development of the market-directing and market-creating role that is so characteristic of the Chinese state-capital nexus is moving into its next phase.

Conclusions

This article started with the question whether the Covid-19 crisis signals a fundamental transformation of the role of the state in global capitalism, *implying a more fundamental break with market-making neoliberal globalization*. First, it is worth repeating that rather than thinking in terms of any 'return of the state', the state always plays *different kinds of roles* within capital accumulation and vis-à-vis the market. It is in the (re)configurations of these roles, and the (sometimes) relative predominance of the one over the other, that we can observe relevant variations across space (between different states) and change over time. Distinguishing then between what we identify as the four roles of market-creation, market-correction, market-intervention and market-direction, as well as their internal and external dimensions, has allowed us to come to a more comprehensive and accurate understanding of the kind of changes we are currently witnessing with respect to the role of the capitalist state in global and domestic markets.

On the basis of our exploratory case studies of the US and China we offer four preliminary conclusions regarding the current reconfiguration of the role of the state and its possible further trajectory. A first general conclusion is that the current unprecedented state interventions around the world in order to save capitalist markets and restore private capital accumulation are likely to have significantly strengthened the legitimacy of a more active management of the economy by the state across the board for years to come, that is, whether pertaining to the state's market-correcting, market-intervening or market-directing roles. Indeed, in the case of the US we see signs of an emerging discourse within political both parties that revalues the role of the state as needing to do more than just enabling and freeing (creating) markets. In the case of China, what many regard as China's effective and swift response to the pandemic, and the fact that its economy is doing much better than that of the US, has probably only reconfirmed – at least within China – the legitimacy of China's 'strong state'.

Second, both the US and the Chinese case show clearly how indeed the different roles of the state that we have identified, while potentially contradictory, can very well go hand-in-hand. In the case of the US, we saw that Trump – elected on the wave of a populist backlash against 'globalism' and in the context of an economic recovery after the financial crisis that had benefitted only a tiny minority – chose to mix reinforced market-making at home with an *external* correction of markets through protectionist and mercantilist policies. In the case of China, the distinction between these different roles helps explain the contradictions embedded in Chinese capitalism, revealing how continued state-direction can very well co-evolve with market-creation, although this requires continuous reforms and adaptations (Chen & Naughton, 2017; de Graaff et al., 2020).

A third, and related conclusion is that while the current reconfiguration of the roles of the state does not necessarily imply a fundamental break with global marketisation as such, it does seem to signal the end of its neoliberal character, that is, with the relative emphasis on the market-creating role of the state. First, it appears unlikely that following Trump's unprecedented protectionism Biden will be able (or even willing) to fully restore the global free trade regime that always was a key component of the US-led project of global market creation, nor that his administration will become less hawkish in its trade and national security relations with China (and at least his first year in office appears to confirm both). Thus, on the part of the US we are likely to continue to see more external market correction than at least prevailed in the decades preceding the Trump presidency. Biden also intends to reinforce the market-correcting role of the US state at home on a more structural basis (but it remains to be seen whether he succeeds, given both Republican and corporate opposition). At the same time, these trends do not mean the end of globalisation or the global expansion of markets, nor did they under Trump. But even if the US would seek to 'deglobalize' and 'decouple' from China, the expansion of China into global markets is likely to go on unabated. With its gradual integration into global markets China has – in spite of its neo-mercantilist strategies – increasingly been taken on the role of promoting global free trade and open borders. A possible scenario is thus that China will increasingly take over from the US as the motor and leader of the ongoing expansion of global markets, certainly in the Global South, even if not through the kind of hegemonic leadership as the US exercised, and even if probably resisted in these aims by the US. These processes will also have less of a neoliberal character inasmuch as they will be more mixed with stronger elements of (external) market-correction and probably even more so with elements of market-direction, both internally and externally.

A fourth and perhaps most important preliminary conclusion, therefore, is that there are strong indications that the market-directing role of the state is getting more prominently to the fore within the global political economy generally, a trend that is in fact significantly reinforced by the Covid-19 crisis. Within what is still globalising capitalism, the state is taking up a much more active role in steering global markets, or their own market within it. In the US we have seen how in recent years, reinforced by the pandemic, there have not only been growing concerns over the dependence on critical global supply chains and with that a growing perception of the need to produce more at home, but also a push to strengthen – through large state-funded projects – America's manufacturing and lead in new technologies in order to, in president Biden's words, 'to win the 21st century' in competition with China and other countries (Biden, 2021b). There are indications that a similar shift is taking place within the EU, with the European Commission promoting a new industrial policy agenda aimed at strengthening Europe's 'strategic autonomy' (European Commission, 2020).[7] In the case of China, the external market-making role of the Chinese state through promoting the global expansion of the Chinese transnationalizing state capital has, as we have shown, implied a continued strong market-direction on the part of the Chinese state. This market direction does not only pertain to the role of the Chinese state within its domestic political economy, but indeed also globally, as China's expansion both creates new markets globally and directs them at the same time, both through continuing state ownership and (other) linkages with the CCP, and through projects such as the BRI, which support the global expansion of Chinese capital while also controlling major investment decisions. Both the first steps that the US state appears to be taking towards a stronger market-direction role, and the ongoing market-direction role of the Chinese party state parallel to its extensive internal and external market creation, must be seen in the context of an increasing Sino-US geopolitical rivalry. In the US case calls for a stronger US industrial policy are explicitly formulated as a response to what is perceived as a successful but by that very fact also threatening Chinese industrial strategy (such as in Made in China 2025). The Chinese Dual Circulation strategy on the other hand may be seen as an attempt to counter the external market-correcting and intervention tendencies on the part of the key Western players in global markets and the more 'hostile' external environment this creates. It is thus that arguably somewhat ironically the current geo-economic and geopolitical competition between the world's largest capitalist economies – born in part out of perceived fundamental differences in their respective economic and political models – appears to lead to a relative convergence with respect to the roles of their respective states, with the US coming somewhat closer to the Chinese market-directing role, and with China increasingly taking over as the world's external market-creator – be it with crucial remaining differences in terms of the more 'liberal' and 'statist' characteristics of their respective political economies.

Notes

1. That powerful or 'hegemonic' states – such as in the twentieth century respectively the UK and the US – play a large role in (re-)shaping the markets of other states – for instance by setting certain legal or regulatory standards for other states, whether through treaties or other forms of 'international regimes' – precisely shows the analytical value of the distinction we here make.
2. To avoid any misunderstanding, we do not seek to imply that 'the market-making role of the state' and neoliberalism is the same thing. Neoliberalism we see as a class-based political project with marketisation and the liberalisation of markets (through e.g. privatisation, deregulation) as important, though not the only means. As such it puts the market-making role of the state to the fore. However, market-making is as old as capitalism (indeed, this is how capitalism originated, through the making of markets, in part by and through the state) and will continue after neoliberalism (but re-combining with other roles of the state in new ways).
3. Our notion of the market-direction role of the state overlaps to an extent with that of 'economic statecraft' as defined by Weiss and Thurbon (2021, p. 474) as 'government initiatives designed to reach for or push the high-tech frontier in order to fend off, outflank, or move

in step with clearly defined rival powers – whether such rivalry is primarily economic or military'. Our concept of market-direction is more general and does not necessarily have to be oriented toward the high-tech frontier (but may also be expressed by e.g. involvement in oil production, or other older industries). The latter part of their definition refers to what we call below the external dimension of market-direction (e.g. the external dimension of industrial policy), and while we do in the next section observe the growing importance of geopolitical rivalry in what we argue to be a *relative* convergence between China and the US around market-direction, this is not part of our definition.

4. For example, as shown in Milanovic (2019, pp. 87–8), the share of industrial output from SOEs has gone from almost 100 percent in 1978 to just around 20 percent in 2015 and the share of the urban workforce employed in SOEs has decreased from around 80 percent prior to 1980 to less than 16 percent in 2016 (ibid., p. 90).
5. Inward FDI flows have increased with ups and downs to amount to 141 billion USD in 2019, slightly more than half of US' FDI inflows (246 billion USD) (UNCTAD, 2020, p. 12).
6. A very recent example in 2019 involved the enactment of a *Foreign Investment Law* which provides equal treatment of domestic and foreign enterprises in implementing regulations (UNCTAD, 2020, p. 100) and already in 2007 the corporate tax rate has been reformed to apply equally to foreign and domestic firms (Hung & Chen, 2018, p. viii).
7. The US-led Build Back Better for the World (B3W) initiative and the more recent EU Global Gateway connectivity project are typical indications of this kind of competition from the US and Europe and their 'likeminded' allies with China and the BRI.

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