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**“What we possessed in the past
doesn’t necessarily belong
to us now;
what we possess now
may not be ours
forever.”**

**Hu Jintao’s address,
December 18, 2008**

Abstract

This paper analyzes the impact of global financial and economic crisis on the process of system transformation in China. First, it details the direct impact of global growth on macroeconomic development and its indirect impact on economic transformation. Second, it analyzes the direct impact of global crisis on macroeconomic decline and its indirect impact on the prospects of political transformation. The paper builds on the basic principles and ideas of the Interactive Party-State model² to introduce the concept of transformation dynamics. This concept implies the direction and speed of change of the retreating party-state sphere and the emergence of the field outside of it during the process of transformation. Using this concept a statistical survey was carried out on the economic transformation of the Chinese party-state.³ Results reveal the disparities of the dynamics of transformation in time, in space, and at different levels of aggregation between 1999 and 2004. A dominant type of transformation dynamics is revealed during this period and the shift of dominant type within that period,

¹ The paper was inspired by the questions raised by Kun Chin Lin in Singapore and the participants of the comparative economic systems seminar in Kyoto in September 2008, especially Hiroshi Tanaka, Takumi Horibayashi, Satoshi Mizobata. We are grateful to the participants of the Contemporary China seminar series co-organized by China Centre with St Antony’s Asian Studies Centre in Oxford in March 2009 for insightful discussion. The financial support of the Hungarian National Research Fund is gratefully acknowledged.

² Csanádi, Maria, *Self-consuming Evolutions: A Model on the structure, Self-reproduction and Self-consumption of Party-state Systems Tested in Romania, Hungary and China*. Academic Press, Budapest, 2006

³ Csanádi, Maria *Spatial Disparities of system transformation in China*. Book manuscript, 2009

sensitive to the trend of certain economic indicators. Based on those findings, the paper projects the dominance of another type of transformation dynamics as a result of the consequences of global crisis. It also outlines the possible impact of this dynamics on the premises of political transformation.

Keywords: system transformation, China, economic transformation, political transformation, spatial disparities in system transformation

JEL: B52, D85, N10, P2, P3, P41, P52

A globális válság hatása a kínai rendszer politikai átalakulására⁴

CSANÁDI MÁRIA – HAIRONG LAI – GYURIS FERENC

Összefoglaló

A cikk a globális pénzügyi és gazdasági válság hatását vizsgálja a kínai rendszerátalakulásra. Először a globális növekedés közvetlen hatását vizsgálja a makrogazdasági növekedésre, és közvetett hatását a gazdasági átalakulásra. Másodikként elemzi a globális válság közvetlen hatását a makrogazdasági hanyatlásra és közvetett hatását a politikai átalakulás megindulására. A cikk az Interaktív Pártállami Modell⁵ alapelveire és gondolataira építve vezeti be a transzformációs dinamika fogalmát. E fogalom az átalakulás folyamatában visszahúzódó pártállami szféra és a kibontakozó hálón kívüli szféra egymáshoz viszonyított irányát és sebességét takarja. E fogalom birtokában statisztikailag elemeztük a kínai pártállam gazdasági átalakulását.⁶ Az eredmények a transzformációs dinamika eltéréseire világítanak rá időben, térben és aggregációban 1999 és 2004 között. A vizsgált időszak alatt az eltérő dinamikák között mégis volt domináns. Időszakon belül a domináns transzformációs dinamika változik, ami összefüggésbe hozható bizonyos gazdasági mutatók változására való érzékenységeivel. Az eredmények alapján a cikk a globális válság közvetlen hatásaként kialakuló gazdasági visszaesésből új típusú transzformációs dinamika dominanciáját vetíti előre. Felvázolja emellett e dinamika hatását a politikai átalakulás megindulásának lehetőségeire.

Tárgyszavak: rendszer átalakulás, Kína, gazdasági átalakulás, politikai átalakulás, területi eltérések a rendszer átalakulásban

⁴ Ezt a cikket Kun Chin Lin által Szingapurban feltett kérdés inspirálta, valamint a Kyotóban "Comparative economic systems seminar" résztvevőinek, különösen Hiroshi Tanaka, Takumi Horibayashi, Satoshi Mizobata professzorok hozzászólásai 2008 szeptemberében. Köszönettel tartozunk az Oxford Univesrity China Centre és a St Antony's Asian Studies Centre által közösen szervezett szeminárium sorozat résztvevőinek igényes hozzászólásaikért, ahol a cikk témájában Csanádi Mária 2009 márciusában előadott. A kutatást az OTKA finanszírozta.

⁵ Csanádi, Maria, *Self-consuming Evolutions: A Model on the structure, Self-reproduction and Self-consumption of Party-state Systems Tested in Romania, Hungary and China*. Academic Press, Budapest, 2006

⁶ Csanádi, Maria *Spatial Disparities of system transformation in China*. Book manuscript, 2009

INTRODUCTION

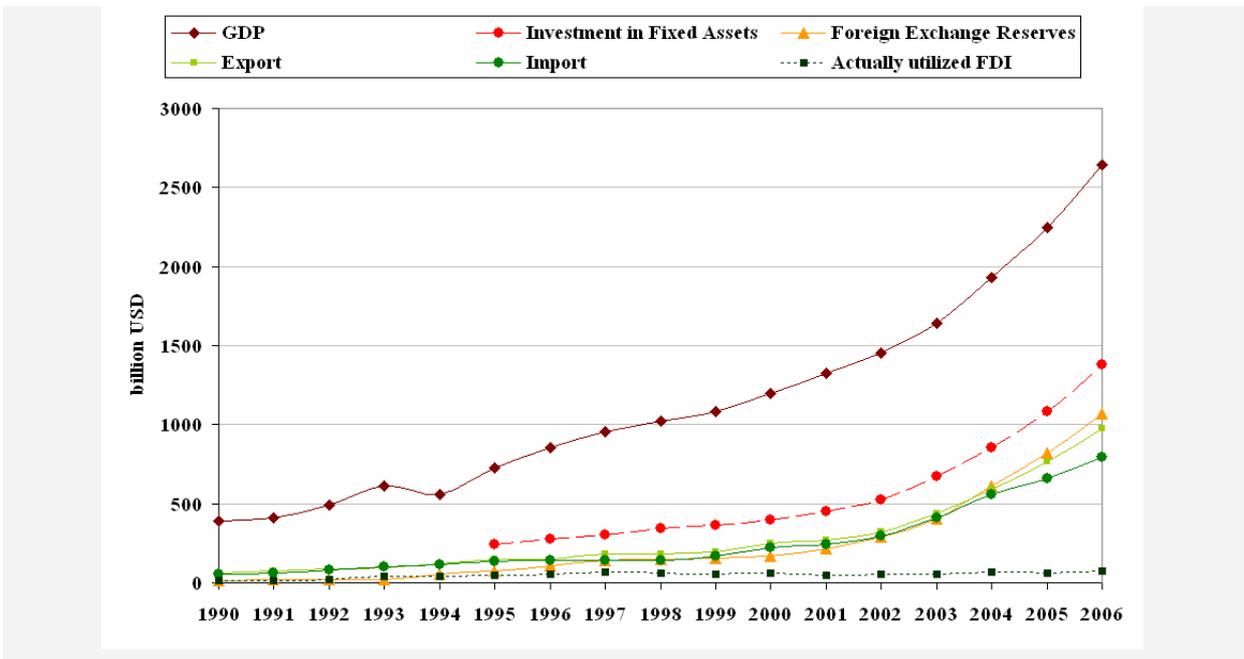
Three decades since post-Mao leaders embarked on economic and institutional reforms to improve economic and social conditions, and opened up China to integrate the country into the world economy. The deepening integration took place in an international environment of overall growth that in late 2008 turned into global recession. It is evident that opposite trends have direct opposite influence on any country's development. It is also evident that under crisis periods actual governments and represented political regimes are under critical situation and might crumble. It is however questionable to what extent global crisis influences China's system transformation. Our pre-supposition is that while overall growth directly fuelled domestic economic growth and indirectly contributed to the acceleration of economic transformation, overall recession will directly fuel domestic economic deceleration and might indirectly contribute to the acceleration of political transformation. The aim of this paper is to detect the interactions of direct and indirect impacts and its spatial disparities.

ECONOMIC AND SOCIAL CONSEQUENCES OF GLOBAL ECONOMIC GROWTH IN CHINA

Integration and reforms brought about exuberant economic growth and progress in social conditions during the last three decades, despite being punctuated by various critical turning points.

Figure 1.

Signs of development and increasing integration into the world economy during a period of global growth (1990–2006)

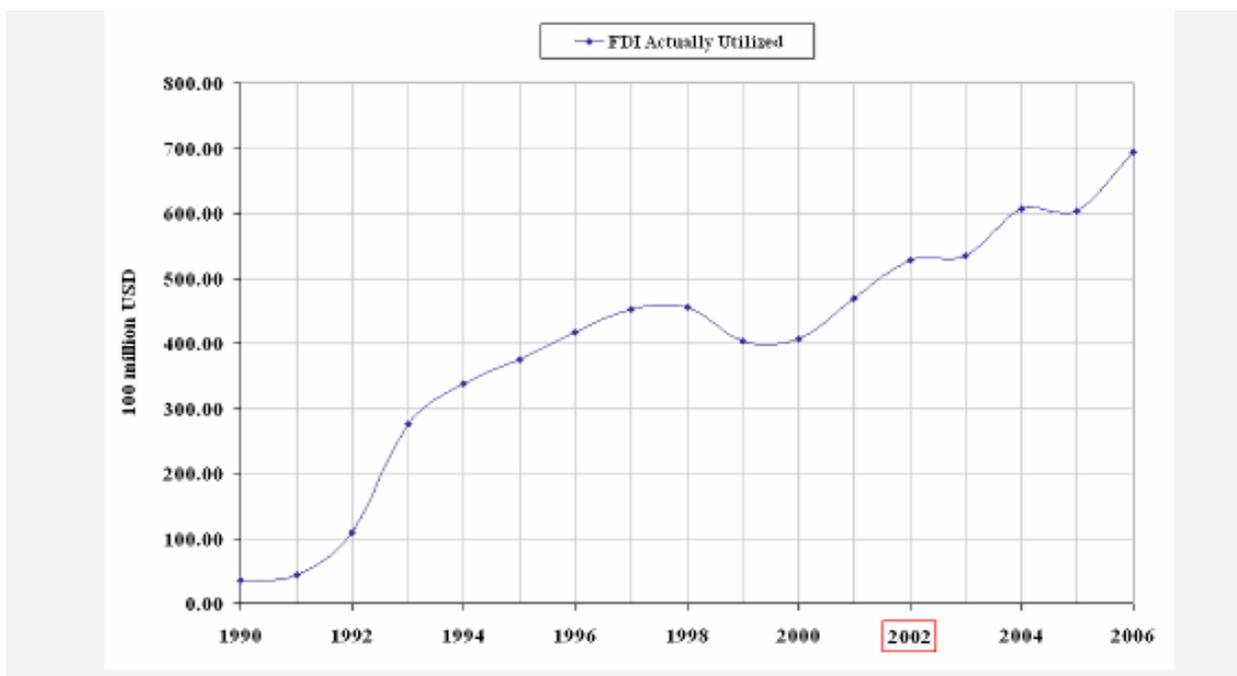


Compiled from the data of University of Michigan
All China Data Source, National Statistics

Figure one reflects this growth in GDP, export, import, investment, and foreign exchange reserves. The same tendency of the actually utilized FDI is masked by the large scale unit of this chart, but if we strike it in smaller unit (100 million rather than billion) the same tendency is evident (Figure 2).

Figure 2.

Quantity of actually utilized FDI in China (1990–2006)



Compiled from the data of China Statistical Yearbook 2007 , Tab. 18-14

Economic policy strategies on reforms and opening up fuelled double digit growth in industrial production, in GDP and in per capita GDP. Owing to steadily rising FDI inflow the development of eastern regions skyrocketed and spilled over to overall domestic production. Extraordinary pace of infrastructure building and urbanization accompanied the development. Growing exports, industry and services absorbed about 130 millions of migrant workers from poor rural regions. Investment climate and production steadily increased and maintained high consumer and business confidence.⁷

⁷ Angresano, *The state of China's economy 2009*, *The real-world economics review*, issue no. 48 , 2008, p. 339 <http://www.paecon.net/PAERreview/issue48/Angresano48.pdf>

Improvements are reflected also in social indicators. For example, standard of living of the whole population increased enormously, over 250 millions were lifted out from absolute poverty due to rural reforms and industrial development.⁸ The high rate of adult illiteracy has been decreasing in giant steps to 10 percent in 2005. Average life expectancy reached 72.5 in 2006, education enrolment ratio is almost 70 percent. The rise of Human Development index (HDI) was the highest in the world during the past 30 years, ranked 81st among 177 countries in 2006. Even faster improvements were demonstrated in China's position in Gender Development Index (GDI) and Human Poverty Index.⁹

Rapid growth however also brought to the fore social disparities¹⁰ that have been mounting over time. For example, Gini coefficient has almost doubled since 1981, to become one of the highest in the world (47.4). Income ratio between rural and urban areas increased: from 1:2.⁶ in the late 1990s to 1:3.3 in 2007 respectively¹¹. Gap was widening between migrants and non-migrant peasants, migrants and urban dwellers, women incomes compared to men.¹² Recently, the 2007–2008 steep rises in inflation was fueled by serious increases in the price of food and crude oil, with growing public concerns also over rising prices of education and health services as well medicine and in real estate.

Mounting social disparities in time were interacting with those in space: China has one of the highest degrees of regional income inequality in the world. Spatial dispersion of Human Development Index of provinces varied between of the 28th and 130th in the world country rank in 2006¹³. Spatial differences in GDP per capita at provincial level were almost tenfold in 2006.¹⁴ Original gap in the national level GDP between the western and central regions in 1978 has further increased by 2006. Differences between east and west belts in per capita GDP during the same period have risen from one and a half fold to almost threefold. Unbalanced economic development between coastal and western and central regions brought about

⁸ Angresano, **The state of China's ...**, referring to Angresano, 2005. "China's development strategy: A game of chess that countered orthodox development advice," *The Journal of Socio-Economics*, Volume 34, pp. 471-498. p. 471

⁹ UNDP, 2008. *Human Development Report 2007/2008* "Fighting climate change," http://hdr.undp.org/en/media/HDR_20072008_EN_Complete.pdf, **China Quarterly Update**, December 2008, <http://go.worldbank.org/4Z57X7K3Mo>

¹⁰ The difference between average urban and rural incomes was 3.3 folds in 2007 to the detriment of the rural society. This income gap was the largest since the reform and opening up of China in 1978. Further gaps emerged in other dimensions of the society: in 2004 the share in consumption of the lowest ten percent income strata of the society was 1.6 percent, while that of the highest ten percent income group consumed 35 percent. www.exxun.com/China/e_ec.html (2008)

¹¹ "China's Exports Probably Declined Most in a Decade in December" referring to a representative of the National Development and Reform Commission, 01-09-2009 http://news.stonebtb.com/Global_Trade/15641-China-s-Exports-Probably-Declined-Most-in-a-Decade-in-December.shtml

¹² Sicular, Terry, Yue Ximing, Björn Gustafsson and Li Shi. "The Urban-Rural Income Gap and Inequality in China." *Review of Income and Wealth* 53, 1 (2007): 93-126.; Khan, Azizur Rahman, Growth, inequality and poverty in China: A Comparative Study of the Experience in the Periods Before and After the Asian Crisis

¹³ UNDP *Human Development Report China 2007/08* and UNDP *Human Development Report 2008*. **Data on 2007 is from** www.exxun.com/China/e_ec.html (2008)

¹⁴ These data may be found in the more recent reports. UNDP *Human Development Report China 2007/08* p. 140.

spatially unbalanced migration.¹⁵ Spatial disparities however did not cause explicit social tensions. Grievances were localized, escalating in number and scope due to local corruption, police abuse, to lay-offs at closed-down, privatized or rationalized SOEs and TVEs,¹⁶ forced land-transfers and confiscations, by local rent-seeking authorities.¹⁷

However, so far, growing tensions were nested in a dynamically advancing macroeconomic context and general improvement of social conditions. These circumstances allowed economic policy makers to smooth tensions, keep mass grievances localized and depoliticized. They also supported the party's capacity to maintain investment and consumption climate and pace of economic growth, and to partially absorb new entrants and laid-off workers. Besides economic growth and marketization the state was active in implementing numerous remedies to reduce income and regional gaps that maintained and supported party legitimacy.

ECONOMIC GROWTH, SHIFTING TRANSFORMATION DYNAMICS AND ECONOMIC TRANSFORMATION

Rapid economic growth in China was driven by increasing integration into the world economy accompanied by structural economic and institutional changes as a result of reforms and integration. Structural changes contributed to systemic transformation of the economic sub-field: to the gradual retreat of party-state relationships and to the emergence of the market relationships. (Fig.3)

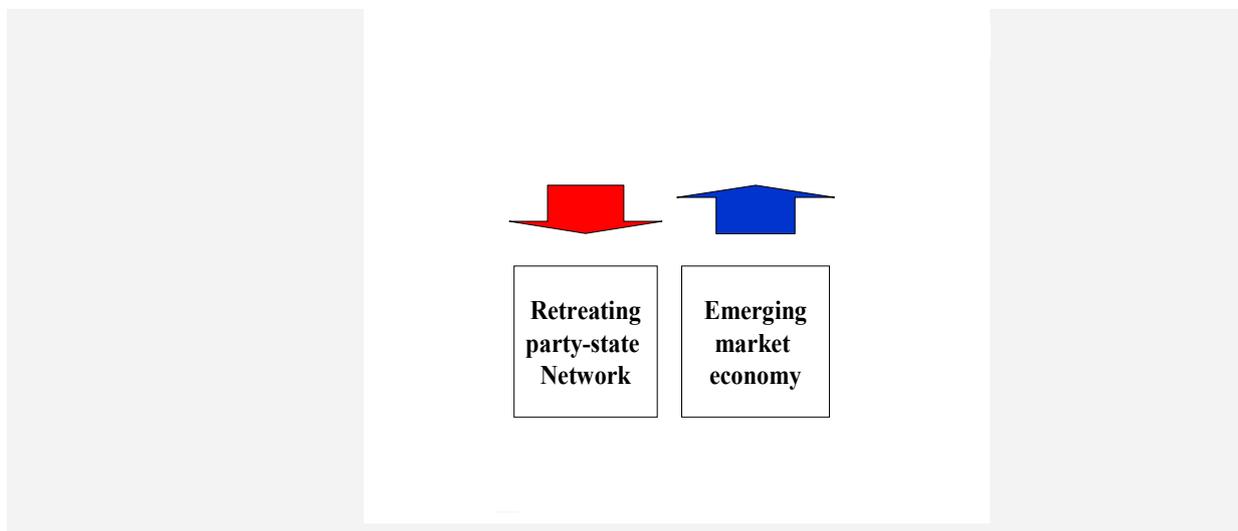
¹⁵ Demurger, Sylvie, Li Shi, Martin Fournier, Wei Zhong, "Economic liberalization with rising segmentation on China's urban labor market" *Asian Economic Papers*, MIT Press, MIT Press, vol. 5(3), pages 58-101, June 2006

¹⁶ Cai, Yongshun, ***Power Structure and Regime Resilience: Contentious Politics in China***. *B.J.Pol.S.* **38**, 000–000 Copyright © 2007 Cambridge University Press. UK; Cai, Yonshun, „Conflicts and Modes of Action in China" *The China Journal* , Issue 59, January, 2008, pp. 89-109

¹⁷ Zhang, Xiaobo, "Fiscal Decentralization and Political Centralization in China: Implications for Regional Inequality, 2005, DSGD Discussion papers No. 21

Figure 3.

Transformation of the economic sub-field



We argue that the process of economic transformation may be expressed with the dynamics of change in the relationship between the market field and the party-state field. We build on the Interactive Party-state (IPS) model to define the theoretical background of this concept. The IPS model is an analytical framework to compare the similarities and differences in the structure, operation and transformation of party-state systems.¹⁸ The model introduces the concept of system transformation as the process of retreat of the party-state network and the emergence of the new system outside of it. According to the model, retreat and emergence may take place first either in economic or political subfield, or even simultaneously, depending on the specifics of power distribution in the party-state network. The different sequence also determines the different economic conditions under which economic or political transformation is taking place first, second or parallel and the different political conditions under which economic or political transformation is taking place first, second, or parallel.¹⁹

In the Chinese case, first economic transformation (retreat and emergence) was so far occurring in a context of macroeconomic growth and in an authoritarian political regime. The retreat meant the decentralization of decisions over allocations, rationalization of management that brought about the abolishment of the institutional background of compulsory planning. It also included the close-down of state-owned and collective enterprises or their privatization, and the stripping of state values through the transfer of competitive capital, product,

¹⁸ Systemic *self-similarities* described by the model allow for the comparison of party-states and their transformation in different time, space and levels of aggregation. Thus, due to systemic self-similarities different individual characteristics as geopolitical location, size, cultural, historical traditions, economic and social structure, level of development do not inhibit comparison etc.

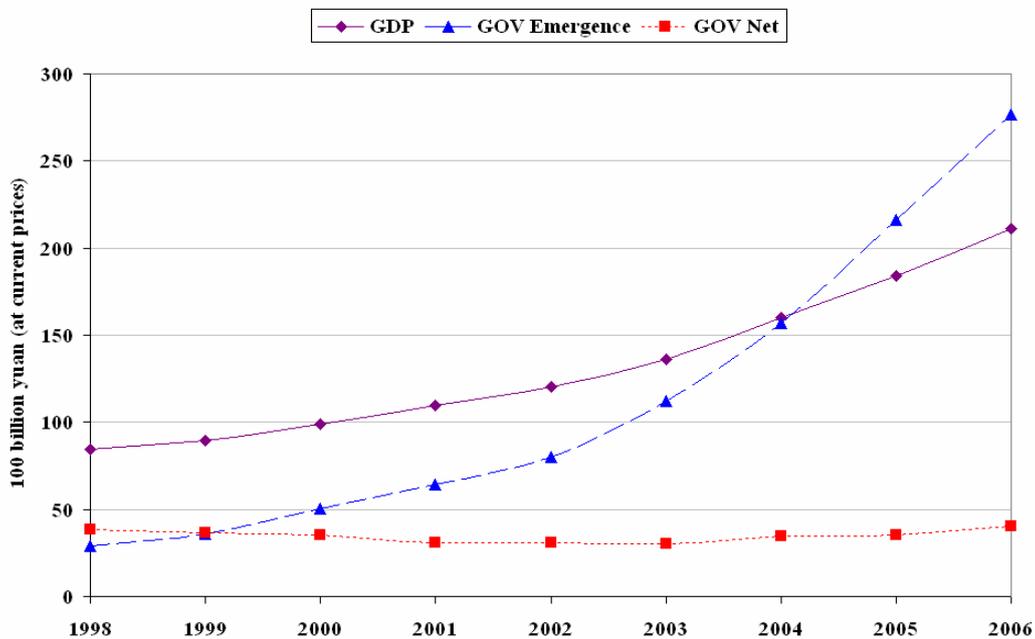
¹⁹ Csanádi, *Self-consuming Evolutions...*, 2006

organization and manpower to the emerging market field. The emerging field outside the party-state context meant increasing decentralization of decision-making over production factors both in agriculture and industry that provided larger room for man oeuvre for economic units. Development of the emergent market was also fuelled by the dual-track price system, the growing number and scope of joint ventures with foreign capital, the green-field foreign and domestic private and privatized enterprises, transferred values from the party-state sphere and the developing market-friendly institutional background.

It is very hard to quantify this two-fold process without simplifying it, moreover, not all components may be quantified and what is in principle quantifiable, in practice is not available statistically. In order to still simply quantify the above two-fold process we have split economic units into two: to those whose activity depends more on the market and to those whose activity depends more from the context of the party-state sphere.²⁰ We have measured the dynamics of the two processes by the only available indicator both at national, provincial and prefecture level for both spheres: the gross output value (GOV). Figure 4. shows the trends of GDP development and the simplified characteristics of economic transformation.

Figure 4.

Growth of GDP and the output of the economic units belonging to the emergent field and the party-state context



Compiled from the data of University of Michigan
All China Data Center, National Statistics

²⁰ This group includes the collective units that similarly depend on the party and state management as those of the strictly or majority state-owned economic units. Thus, this split does not overlap the classifications according to property rights.

Dynamics on Figure 4. reflect overall macroeconomic GDP growth which, according to the chart, is supposedly overwhelmingly owed to the exuberant growth pace of the market field. Same causes might have been interacting on the acceleration depicted in the case of several other economic indicators at national level (see Fig. 1. and 2. on exports and imports, investments in fixed assets, foreign exchange reserves and actually utilized FDI).

Figure 4. reveals that emerging market field shows different tendencies in time, similarly to the pace of the indicators mentioned above on Fig. 1.: it gathers momentum starting from 2002, strengthening the previous trend. Meanwhile, from 2002 on, the trend in the output of the units pertaining to the party-state context also begins to increase, switching from so-far decline.²¹

Based on the concept of transformation, an operationalized tool was introduced: the concept of the “dynamics of transformation”. The dynamics of transformation allows for the measurement of the multiple varieties in the direction and speed of the emergent field relative to that of the retreating network.²² Relying on this classification, we have carried out a statistical survey on the dynamics of transformation of the economic sub-field of the Chinese party-state. The survey on transformation dynamics extends from 1999 to 2004, during a period of global and macroeconomic growth, measured in the context of economic transformation first in an authoritarian political regime. We have analyzed the different types of transformation dynamics, their disparities in space and shifts in time.

Based on the combination of growth, stagnation and decline of the two fields, the different types of transformation dynamics are classified in Table 1. The table strikes the variations of the simultaneous change of direction of the party-state context and that of the market field.²³

²¹ According to our interpretation, this was the starting impact of China’s deeper integration into the world economy through entering the WTO.

²² If there were data on sub-national level on the emergent market field and the party-state field, relative direction of changes as well as speed (transformation dynamics) could have been detected with the changes of other indicators than those of gross output value. Results, due to the strictly parallel trends of these major indicators on national level supposedly would have given similar dominant types of transformation dynamics, though might have reflected a different configuration in space.

²³ Based on those data and the above table we have distinguished thirteen types of transformation dynamics that contain relative speed and direction, independent of the size of the output: when both fields grow either in equal pace (GGa), or one of them grows faster (GGb and GGc); when both fields decline either in equal pace (DDa), or one of them declines faster (DDb and DDc); when only one of the fields grows while the other declines (GD) and (DG); when only one stagnates and the other declines or grows (SG) (SD), (DS), (DG); when both stagnate (SS). Real variations of these dynamics were in practice nine, and from those, there were two dominant types at national, provincial and prefecture levels in the examined period.

Calculation of the different types of transformation dynamics²⁴

**Dynamics of transformation:
direction and speed of change**

	Growth	Stagnation	Decline
Growth	growth-growth	growth-stagnation	growth-decline
Stagnation	stagnation-growth	stagnation-stagnation	stagnation-decline
Decline	decline-growth	decline-stagnation	decline-decline

Note: changes of the Net and the Emergent field:

Growth: +10% and above; **Stagnation:** -9.9% – +9.9%;

Decline: - 10% or below

Using the above terms and types of transformation dynamics on national level we may detect an absolute retreat of the network with growing emergent field outside the network and declining party-state field until 2002 (GD). After 2002 the relationship changes: the absolute retreat shifts to relative retreat of the network, meaning higher speed of growth of those within the emerging market field compared to a slower growth of the party-state field (GG).²⁵ The following tables and maps reveal the disparities of the types of the dynamics of transformation in space, in time and at different levels of aggregation.

Table 2. strikes the distribution of provinces (and within those, the output of economic units pertaining to the network and the market field) according to each type of transformation dynamics. Statistical results point to the fact that in 90 percent of the cases emergent field was growing, while half of the cases the output of those pertaining to the party-state context was stagnant. This will determine the dominant type of transformation dynamics during this period: the emerging market field and stagnating party-state context, as a kind of relative retreat of the network.²⁶

²⁴ Intervals are only likely too large, since percentages do not cover year-by-year growth but overarch five years. In this case the intervals are sufficiently small to measure growth, stagnation and change.

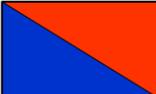
²⁵ In case we examine the number of economic units in these two spheres (Csanádi, 2009) there is no shift in 2002 but the former tendency of absolute decline of those belonging to the party-state context is further prolonged.

²⁶ This is when the emergent market sphere is increasing while the party-state sphere is retreating.

Table 2.

Provincial level transformation dynamics between 1999 and 2005

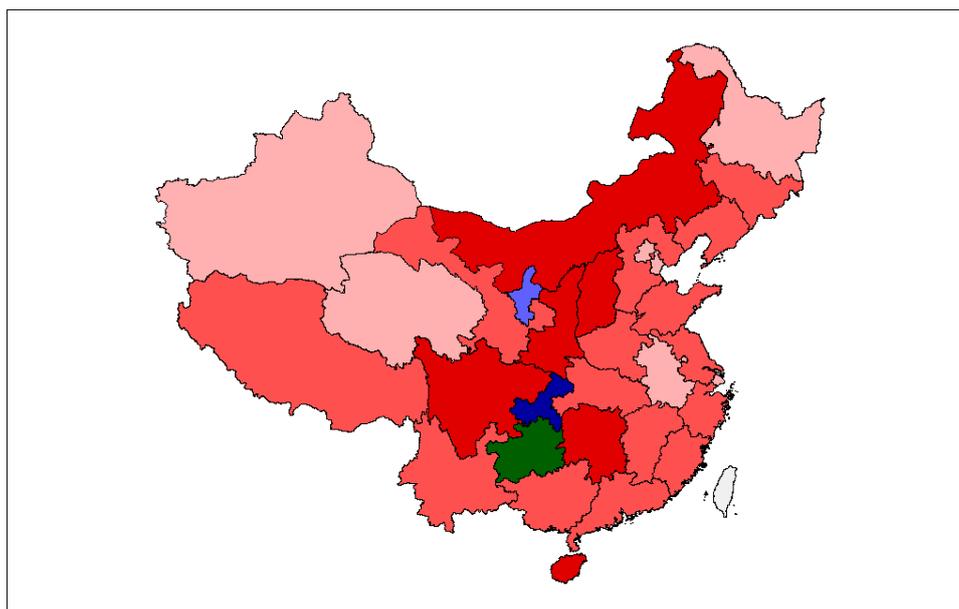
Ratio of different types of dynamics of transformation

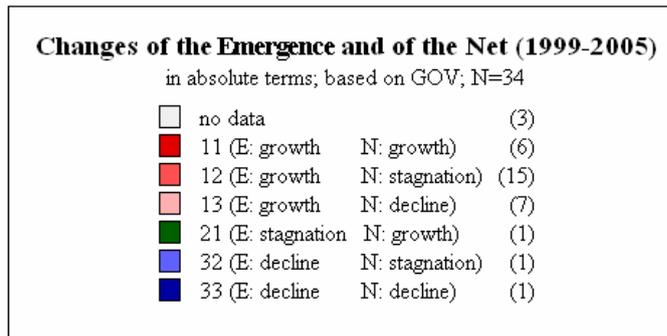
 G S D Σ	G	S	D	Σ
G	19.4	48.4	22.5	90.3
S	3.2	0.0	0.0	3.2
D	0.0	3.2	3.2	6.4
Σ	22.6	51.6	25.7	

Compiled from the data of University of Michigan
All China Data Center, Provincial Statistics

Map 1.

The configuration of different types of transformation dynamics on provincial level between 1999 and 2005





Compiled from the data of University of Michigan
All China Data Center, Provincial Statistics

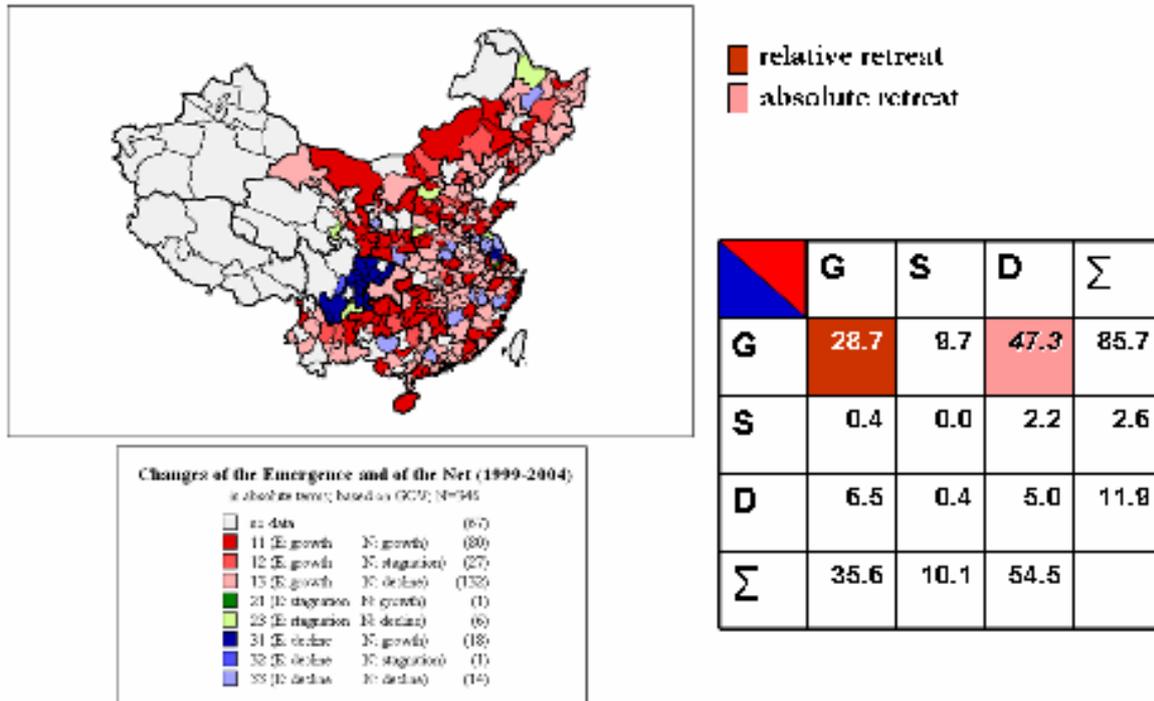
Map 1. reveals the configuration of the different types of transformation dynamics in space. According to the map the different types are distributed unevenly in space, though there are large clusters of similar dynamics overarching provinces. Spatial distribution of the different types of dynamics does not follow conventional regional divisions and trends of gradually declining developmental level according to coastal, central and western or northern and southern larger regions. Clusters of stagnation of the output of the economic units belonging to the party-state context advance from coastal region deep to the inland, others showing relative retreat of the network extend from some central to western provinces, absolute retreat of the network is scattered among all larger regional divisions.

Map 2. reflecting prefecture level reveals a much more differentiated configuration. Few provinces are homogeneous: we may detect provinces that have multiple types of prefecture level transformation dynamics, neighboring opposite dynamics and insulated prefectures surrounded by prefectures with different homogeneous dynamics. Though smaller or larger clusters occur, they generally do not overlap provincial boundaries. The coastal region at prefecture level is not at all homogeneous. In general, based on correlation and significance measurements²⁷ at prefecture level, there is no correlation among the types of transformation dynamics and absolute economic indicators reflecting level of development (Csanádi, 2009). This fact might misguide economic policy interventions to decrease tensions based on conventional developmental factors and larger regional divisions.

²⁷ Connection was measured with Eta square and significance test among the types of transformation dynamics and several indicators of level of economic development to test whether the difference among the economic indicators of those units that pertain to one type of transformation dynamics is smaller than the difference of those showing different transformation dynamics.

Configuration and distribution of the types of transformation dynamics at prefecture level between 1999 and 2004

Dynamics of transformation and its spatial disparities (N=100 in 1999 and 2004)



Compiled from the data of University of Michigan
All China Data Center, City Statistics

The frequency of absolute retreat of the network is dominant at prefecture level. This harmonizes with the trends and mutual relationship in the changes at national level (see Fig. 3). However, while at provincial level there were practically no other types of transformation dynamics but the dominant ones, prefecture level shows much larger variance.

Splitting the period according to the changes detected on national level, data reveal the same shift in the type of dominant dynamics both at provincial and prefecture levels, from absolute retreat to relative retreat of the network. According to the Table 4 representing provincial level, the two dominant transformation dynamics, containing the growth of the emergent field, suppressed all others. They were even growing in percentage from one period to the other: from 93.55 to 100.00 percent respectively. These numbers support the supposition that macroeconomic growth was due to the growth of the emergent field accompanied by the decline, stagnation and growth of the party-state context.

Table 4.

**Shifting dominant transformation dynamics at provincial level
within 1999 and 2005**

YEAR		GROWTH	STAGNATION	DECLINE	SUM
2002/1999	GROWTH	19.35	19.35	54.84 abs. decl.	93.55
	STAGNATION	0.00	0.00	0.00	0.00
	DECLINE	6.45	0.00	0.00	6.45
	SUM	25.70	19.35	54.84	100.00
2005/2002	GROWTH	58.06 rel. decl.	12.90	29.03	100.00
	STAGNATION	0.00	0.00	0.00	0.00
	DECLINE	0.00	0.00	0.00	0.00
	SUM	58.06	12.90	29.03	100.00

Note: Rows contain the dynamics of the emergent field, columns that of the network.

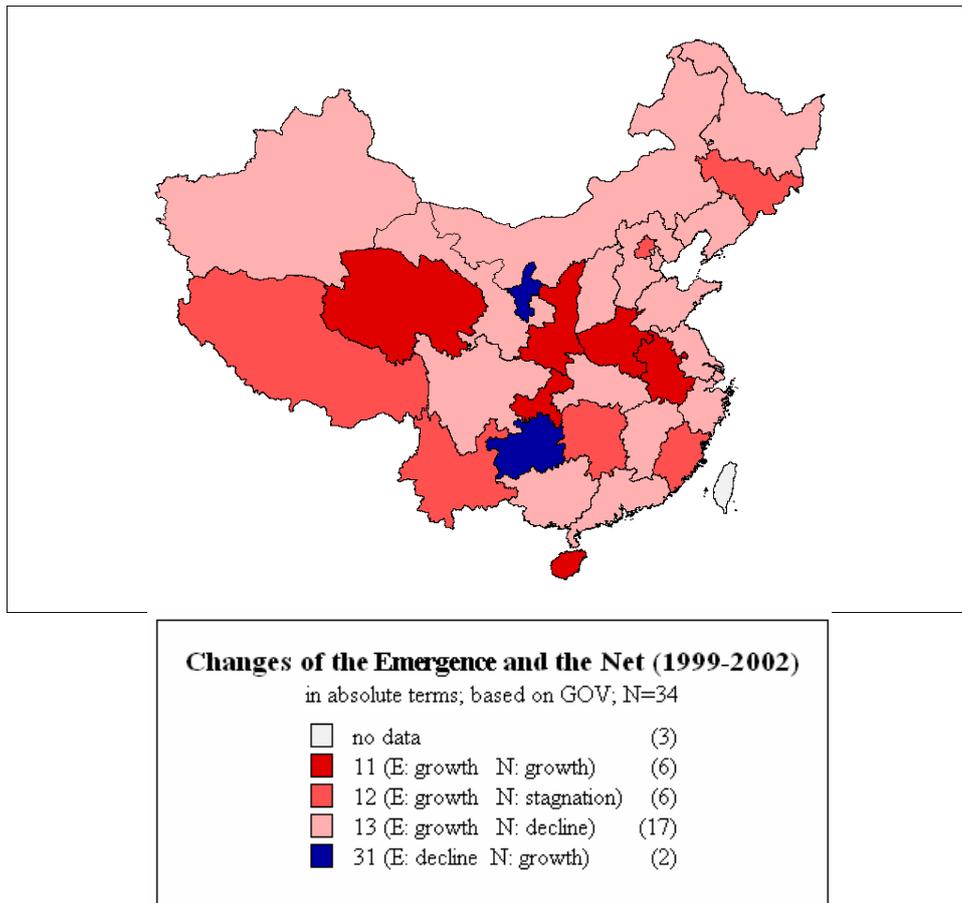
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Comparing the differences in the spatial distribution of the two periods on Map 3a. and 3b. Spatial configuration of the different types of transformation dynamics demonstrates the chances of the shift of dynamics from any type to any other type within the earmarked period. Absolute retreat may shift to relative, and relative to absolute retreat (Anhui, Henan, Qinghai). Even opposite direction shifts have happened in Guizhou and Ningxia where the pace of growth of Emergence and Network was reversed: the decline of the Emergent field turned to growth while the growth of the Network turned to stagnation, or in the other case, decline. One can also see that *shifts were so frequent* that behind each type of dynamics different provinces are located in the two periods. Only four provinces from the 31 did not shift transformation dynamics: Jilin, Tibet and Yunnan provinces, where the emergent field grew steadily while stagnation of the network did not change; the fourth was Shaanxi, which continued with relative retreat of the net also in the second period. Except for Fujian, the dynamics of the whole east coast turned from absolute retreat to relative, suggesting a spill-over effect. Fujian province, which was already insulated among the cluster of provinces with absolute retreat with its growing Emergent field and stagnating Network in the first period, instead of shifting

to relative retreat as its counterparts, shifted to absolute retreat.²⁸ Moreover, between 1999 and 2005 nearly all types of transformation dynamics occurred along the coastal provinces or attached to those, though the majority is steadily the dominant relative and absolute retreat.

Map 3a.

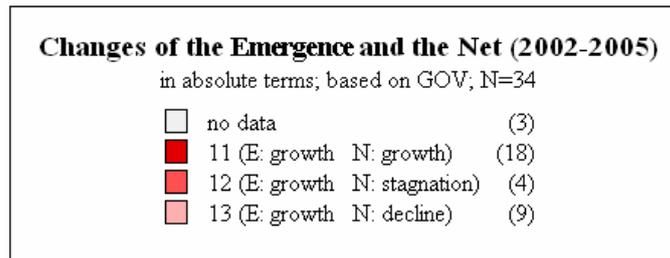
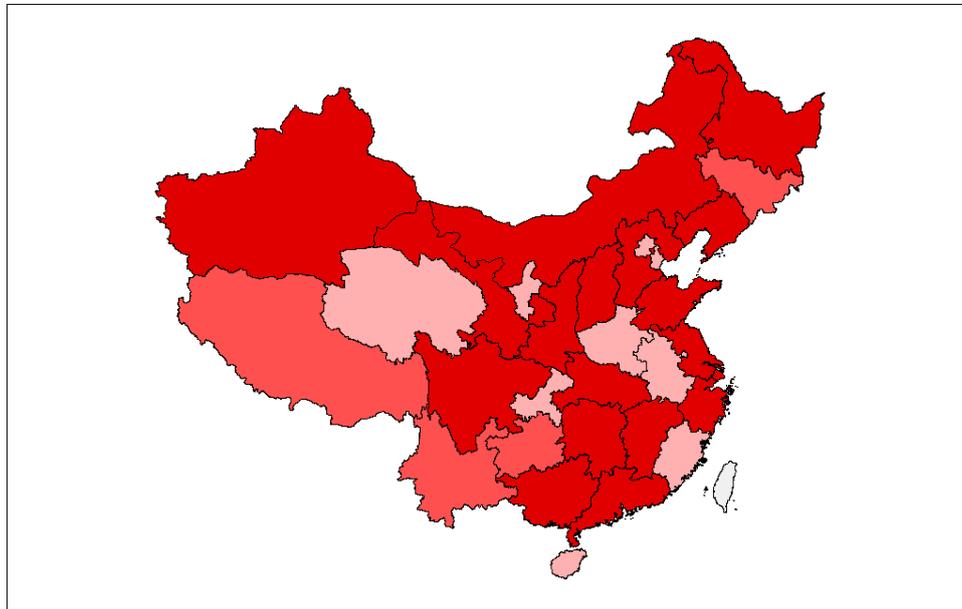
Spatial distribution of different types of transformation dynamics between 1999 and 2002



Compiled from the data of University of Michigan
All China Data Center, Provincial Statistics

²⁸ Unfortunately, here are the limits of the analysis where reasons of these shifts or the prevalence of the same type dynamics, the possible consequences of the shifts and the possible mutual impact of neighboring similar or different type dynamics remain hidden. To trace down the reasons and impacts is the function of an empirical survey.

Spatial distribution of different types of transformation dynamics between 2002 and 2005



Compiled from the data of University of Michigan
All China Data Center, Provincial Statistics

Similar dominance and shift of dominant dynamics is revealed at prefecture level on Map 4a and Map 4b., and Table 5: the shift from absolute to relative retreat of the output of units pertaining to the party-state network. What we can perceive comparing the first and the second periods is that here too, all kinds of shifts may occur from any type of transformation dynamics.

Table 5.

Shifting dominant dynamics at prefecture level within 1999 and 2004

Dominant shifting dynamics of transformation (prefecture level)

	G	S	D	Σ
G	20.7	17.6	51.6	89.9
S	0.0	0.0	0.8	0.8
D	0.4	0.4	8.6	9.4
Σ	21.1	18.0	61.0	

Different types of transformation dynamics during 1999 and 2002

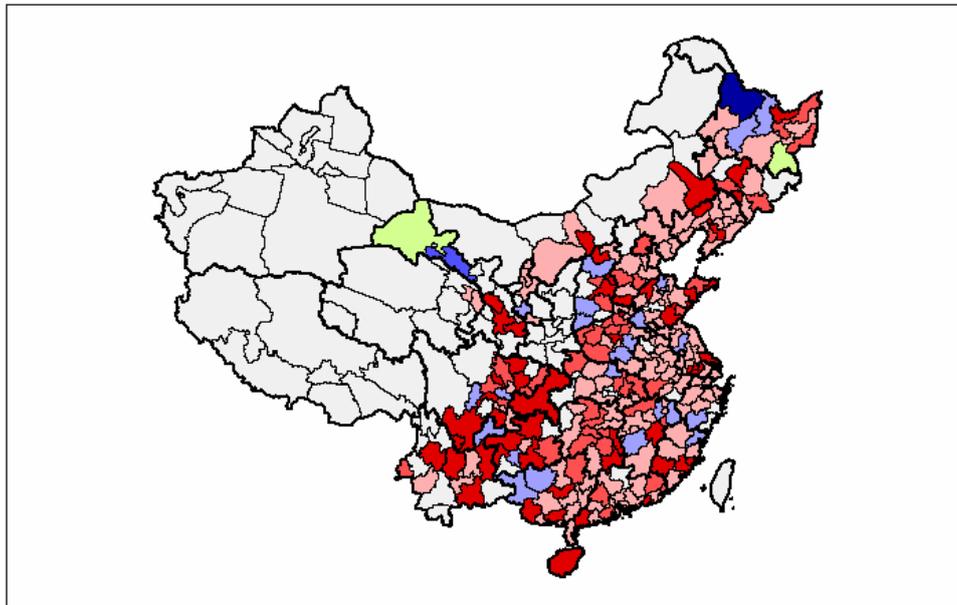
	G	S	D	Σ
G	41.5	19.0	23.7	84.2
S	0.0	0.0	0.3	0.3
D	9.5	0.6	5.4	15.5
Σ	51.0	19.6	29.4	

Different types of transformation dynamics during 2002 and 2004

Compiled from the data of University of Michigan
All China Data Center, City Statistics

Map 4a. and 4b. shows that there are regions, sometimes whole provinces, where provincial and prefecture level dominant dynamics do not match, the most striking differences are in Jiangsu, Heilongjiang, Guizhou, Chongqing, and Sichuan. We may conclude that it is possible that characteristic shifts of the type of dynamics and frequency of shift at prefecture level are different than in the higher level aggregations. One can also detect two steady clustering of shifts at prefecture level from relative and absolute retreat of the network towards absolute retreat of the emergent field in the second period. This has occurred in Jiangsu province and in Guizhou and Chongqing and part of Sichuan province.

Different types of transformation dynamics and their spatial dispersion during the period of 1999 and 2002

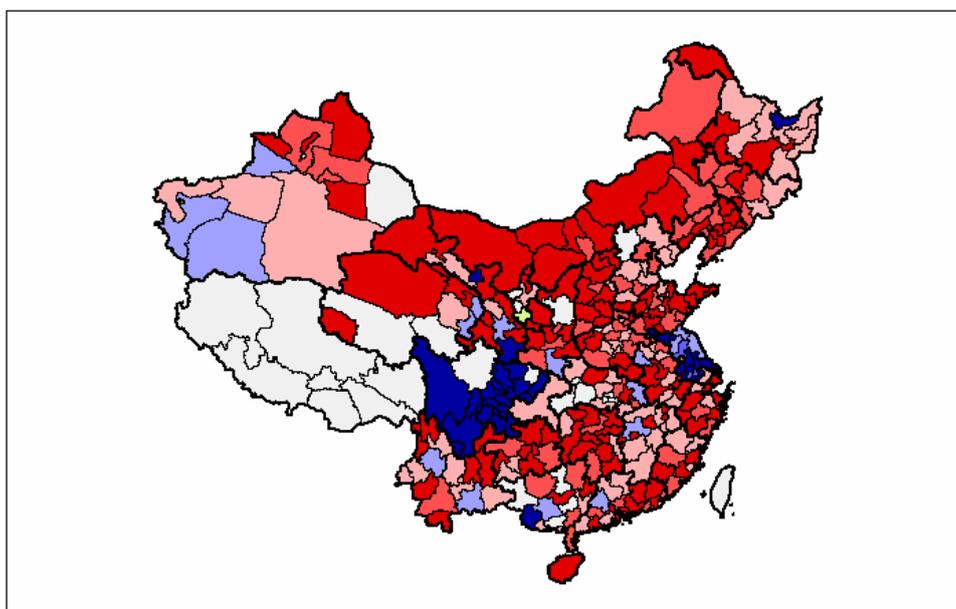


Changes of the Emergence and of the Net (1999-2002)
based on GOV; N=346

no data			(90)
11 (E: growth N: growth)	Red		(53)
12 (E: growth N: stagnation)	Dark Red		(45)
13 (E: growth N: decline)	Pink		(132)
23 (E: stagnation N: decline)	Light Green		(2)
31 (E: decline N: growth)	Dark Blue		(1)
32 (E: decline N: stagnation)	Blue		(1)
33 (E: decline N: decline)	Light Blue		(22)

Compiled from the data of University of Michigan
All China Data Center, City Statistics

Different types of transformation dynamics and their spatial dispersion during the period of 2002 and 2004



Changes of the Emergence and of the Net (2002-2004)
in absolute terms; based on GOV; N=346

□	no data	(30)
■	11 (E: growth N: growth)	(131)
■	12 (E: growth N: stagnation)	(60)
■	13 (E: growth N: decline)	(75)
■	23 (E: stagnation N: decline)	(1)
■	31 (E: decline N: growth)	(30)
■	32 (E: decline N: stagnation)	(2)
■	33 (E: decline N: decline)	(17)

Compiled from the data of University of Michigan
All China Data Center, City Statistics

Major conclusions of the so-far analysis are the following: spatial configurations at provincial and prefecture level are non-conventional. Different types of transformation dynamics are not correlating with any absolute economic indicators. Dominant type of transformation dynamics, the “absolute retreat of the network” at different aggregations corresponds to the theoretical concept of system transformation: the retreat of the network from the economic subfield and the emergence of the field outside the network. There are shifts of dominant dynamics in time. However, under macroeconomic growth, both on national, provincial and prefecture levels, those variations of transformation dynamics prevail

that are overwhelmingly connected to the growth of the market field, while the party-state field is growing, stagnating or declining.

Since late 2008, however, global downturn began to hit the country's domestic economies. Different dimensions of the national economic development reflected on Figure 1. (such as GDP, export, import, investments in fixed assets, foreign exchange reserves and FDI) are shifting to slower pace, stagnation or decline. New economic and social tensions arise from this new dynamics differentiated in space, adding up to the unsolved former ones, connected to growth. These new tensions are even harder to be dealt with in the context of global downturn and its direct social and economic consequences in a deeply integrated economic system. This global impact had also influenced the dynamics of transformation.

SHIFTING TRANSFORMATION DYNAMICS, PROJECTIONS OF POLITICAL TRANSFORMATION AND UNCERTAINTIES

While, as we stressed, no correlation was found between types of transformation dynamics and indicators of economic level, quite strong and significant correlation is revealed between certain type of transformation dynamics and the dynamics of certain economic indicators, especially those more sensitive to global growth or recession. These are the dynamics of the GDP, the number of employees and total retail sales of consumer goods. Partly owing to this correlation, we project that global recession that brings about a macroeconomic decline differentiated in space will also *change the type of dominant dynamics* in the country. Those so-far insignificant types of transformation dynamics will become dominant when the market field is overwhelmingly declining while the party-state field is growing, stagnating or declining.

Our further hypothesis is that in the context of macroeconomic slow-downs, accumulating social tensions and its local disparities the new dominant transformation dynamics will enhance the prospects of a political transformation. This will occur to spatially different extents through the expectable drive for channeling mass protests. Statistical testing that demonstrated correlation between economic dynamics and transformation dynamics allows this projection. Projection which will follow below naturally cannot be as subtle as the first part of the paper that was based on direct facts, coherent statistics, differentiated at national, provincial and prefecture levels. This part is based on theoretical, statistical and empirical facts that indirectly support the *supposed* consequences of economic slow-down or decline.

Theoretically, the projection relies on the IPS model's ideas on worsening economic conditions and adaptation efforts. According to the model, actions within party-state network occur when extractable and distributable resources decline. This will harden the constraints of self-reproduction of the network. Stronger adaptation efforts develop when both hardening economic constraints from outside the network and reproduction constraints within the

network are coinciding. Such coinciding constraints pre-empted and accompanied political transformation in party-states in 1989 and early 1990s. According to the model, adaptation pressures are owed to the high systemic sensitivity to worsening economic conditions. This is a result of the institutionalized network of dependency and interest promotion that strongly intertwines party-state- and economic decision-makers. Under these structural specifics political conditions have direct economic while economic conditions have direct political consequences. The model also describes the composing elements of the two-fold process of retreat of the network from the political sub-field and the components of the process of emergence and expansion of field outside the network that allow empirical identification of those. Empirical testing in Hungary and Romania providing different examples of direction and speed of these twofold changes underlie theoretical stances. Self-similarities of the structure and operation in space and different aggregation levels demonstrated by the model allow for the projection of those ideas to provincial and prefecture levels. Further, the structural background of different distributions of power described by the model allow for the study of the differences in space and different levels.

However, further uncertainties in the projection arise since we do not have experience on the reversed sequence of transformation, when political transformation comes second, rather simultaneously or first. We do not have its theoretical description either. Based on the theoretical assumption, we suppose that adaptation pressure in this pattern will be increasing in the close future. This projection is supported by evidence that economic constraints from outside the network are hardening and so are reproduction constraints within the network. We also know that this impact will be spatially selective, inciting spatially disparate adaptation efforts. It will depend on several factors: the different extent of development of the local emergent field; and the different impact of the global crisis on them; as well as the selective impact on the network through aid programs; the direct global impact on the network; and indirectly, through interaction with the emergent field.

Statistically the following part is also a projection. This is based on the so-far sensitivity of the type of dynamics to the change of economic indicators we have pointed out in the first part of the paper (with ETA square). Sensitivity was shown in the correlation and its significance between the change of GDP, employment and total retail sales of consumer goods and types of transformation dynamics. Since transformation dynamics is sensitive to economic dynamics, we project the dominance of a new type of dynamics for the near future.²⁹

Empirical data are also indirect: for example, here is the case of Romania, where neither political nor economic reforms were implemented during the self-reproduction of the system. When adaptation pressures increased, the retreat of the net was sudden, the time to

²⁹ We know that impact and transformation dynamics must be also spatially differentiated spatially, but lacking concise data is too early to prove statistically.

the development of the emergent field (both in political and economic sub-fields) was relatively long. Transformation of different sub-fields was simultaneous in a context of cumulated uncertainty and stretched out economic crisis. In the case of Hungary increased adaptation pressures incited simultaneously by hardening resource constraints within and outside the net led to gradual political transformation first in an environment of cumulated uncertainty and economic crisis. Since political transformation was either first, or simultaneous, neither Hungary, nor Romania had an evolved emergent field outside the network in the economic sub-sphere when political transformation occurred. Thus, economic and political conditions of political transformation were certainly different of those in the case of China where the emergent field has been evolved by this stage.

The economic conditions predicted by the model for implications of political change are reflected by a further indirect empirical experience in China: the semi-free elections at township and county levels between 1995 and 2002 (Lai, 2006). We argue that semi-free elections meant the emergence of an instrument partly belonging outside the network and the retreat of one of the composing elements of the network: the appointment of governors and vice governors and at times that of party secretaries. The uncertainty of this projection is that events occurred several levels lower than our statistical and empirical analysis. However, economic decline pre-empted overwhelming cases of semi-free elections in China at township level.³⁰ Reasons for the retreat were similar to those pressures revealed above: economic troubles, social grievances, incapacity of extract further resources. Motivations to implement a partial instrument of the emergent field – the semi-free elections – were similar to those in Romania and Hungary: to channel grievances, get rid of responsibility, and achieve further extraction of resources.³¹

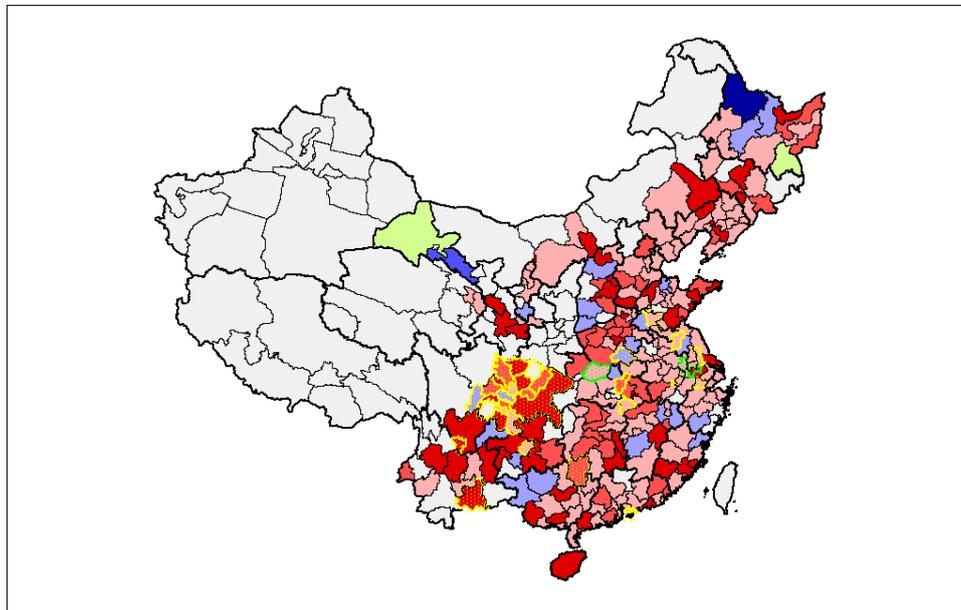
We can also see two maps below. Map 5a depicts the type of transformation dynamics at prefecture level characteristic to the region when in 1998 300 cases of semi-free elections at township level occurred.³² The characteristic type was the relative retreat of the party-state field. (Map. 5a)

³⁰ The Causes and Effects of the Development of Semi-Competitive Elections at the Township Level in China since the 1990s , By Hairong Lai, Thesis submitted in fulfillment for the degree of PhD, Department of Political Science, Central European University, Budapest, January 2008

³¹ Unfortunately, we do not know about the type of transformation dynamics at the time of decision at the given level (neither at township nor at the supervising county level). We do not know either to what extent changes of the type of transformation dynamics drive decision-makers sensitive and motivated for "innovations". We do not know either to what extent the transformation dynamics of higher level aggregations make decision-makers receptive (or motivated, neutral or resistive) to possible changes at lower level aggregations.

³² Unfortunately, we do not have data on the type of transformation dynamics for 1995 when there were 10 cases of township level semi-free elections.

Relative and absolute retreat of the network at prefectures where semi-free elections at township level were held (300 cases in 1998)



Changes of the Emergence and of the Net (1999-2002)
in absolute terms; based on GOV; N=346

□	no data		(90)
■	11 (E: growth	N: growth)	(53)
■	12 (E: growth	N: stagnation)	(45)
■	13 (E: growth	N: decline)	(132)
■	23 (E: stagnation	N: decline)	(2)
■	31 (E: decline	N: growth)	(1)
■	32 (E: decline	N: stagnation)	(1)
■	33 (E: decline	N: decline)	(22)

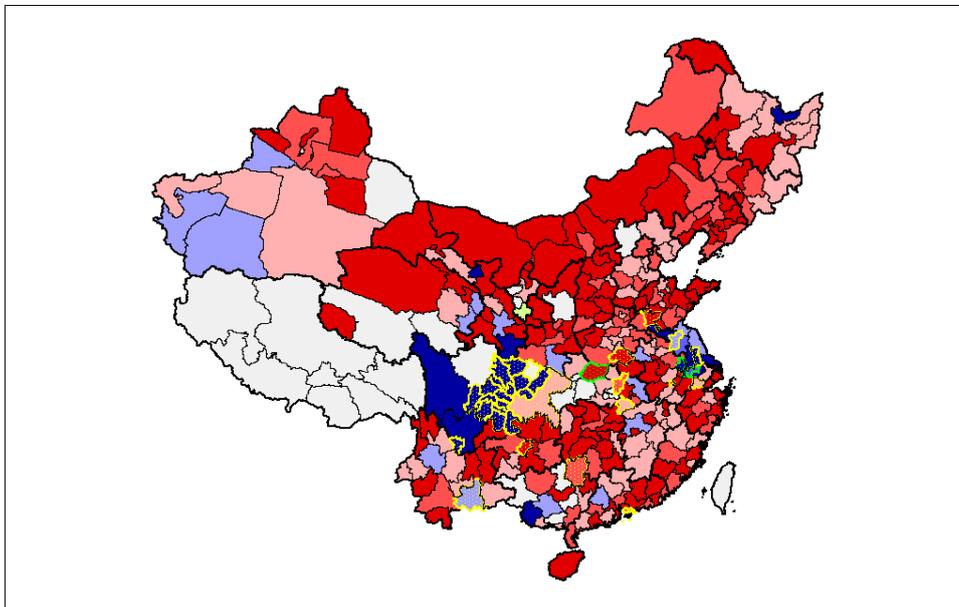
Note:

- prefectures with at least one township where semi-competitive elections were held are depicted with yellow
- prefectures with county-level semi-competitive elections with green border lines

Compiled from the data of University of Michigan, All China Data Center, City Statistics and of the research data of LAI, Hairong 2008

However, the frequency of semi-free elections significantly increased in the region to close to 2000 cases when the characteristic dynamics at prefecture level in those regions shifted to the dominance of absolute retreat of the emerging field (Map 5b), the type we predict to become dominant during the coming years on national level.

Relative and absolute retreat of the network at prefectures where semi-free elections at township level were held (2000 cases in 2002)



Changes of the Emergence and of the Net (2002-2004)
in absolute terms; based on GOV; N=346

□	no data		(30)
■	11 (E: growth	N: growth)	(131)
■	12 (E: growth	N: stagnation)	(60)
■	13 (E: growth	N: decline)	(75)
■	23 (E: stagnation	N: decline)	(1)
■	31 (E: decline	N: growth)	(30)
■	32 (E: decline	N: stagnation)	(2)
■	33 (E: decline	N: decline)	(17)

Note:

- prefectures with at least one township where semi-competitive elections were held are depicted with yellow
- prefectures with county-level semi-competitive elections with green border lines

Compiled from the data of University of Michigan, All China Data Center, City Statistics and of the research data of LAI, Hairong 2008

Concluding the above, projection on the implications on the chances for initiation of political transformation are supported indirectly both by theoretical, statistical and empirical evidences. Economic decline of the last months in China might be initial signs of the growing frequency of the new transformation dynamics due to growing external and internal pressures that might incite stronger adaptation efforts also on the political subfield.

Strong macroeconomic fundamentals in China and large balance of payment surpluses made the initial hit less dramatic than in many other countries. However, expected positive impacts of state programs developments abroad and domestically take time, even in case of prompt economic policy decisions to revitalize the economy. Contrarily, consequences of unfavorable external impacts build up fast in a deeply integrated economy through trade and FDI. Signs of slow-down in economy caused by decelerating FDI and export growth, weaker domestic demand, declining employment, and mass lay-offs are already detectable, and further declines are expected.

INITIAL SIGNS OF FORMING PRECONDITIONS AND GROWING ADAPTATION PRESSURES

According to World Bank quarterly analysis China's economy has slowed down considerably in the first 10 months of 2008 with industrial value added growth sliding even more steeply in October to 8.2 percent (year-on-year), the first single digit growth since 2001.³³ According to January's official report, China's economic growth dropped to 6.8 percent in the three months through December, compared with a year earlier. Analysts have cut forecasts of 2009 economic growth to as low as 5 percent.³⁴ December 2008 quarterly update of the World Bank forecasted that private sector investment is likely to be weighed down by the unfavorable external prospects and continued weakness in real estate. Private consumption growth is likely to soften in 2009. It is predicted that 95 percent of exporters with medium-sized assets may fail in the next three years. China's business of that size provide three-quarters of urban jobs, 60 percent of the GDP, and will largely impact on million of migrant workers and new entrants.³⁵

³³ **China Quarterly Update, December 2008**

<http://go.worldbank.org/4Z57X7K3Mo>

³⁴ "China: Up to 26 million migrants now jobless" By Anita Chang, *The Associated Press*, Feb. 2, 2009, 7:49a.m. Chang, Feb. 2, 2009, referring to Chen Xiwen, director of the Central Rural Work Leading Group, central government advisory body <http://www.chron.com/disp/story.mpl/ap/world/6242084.html>

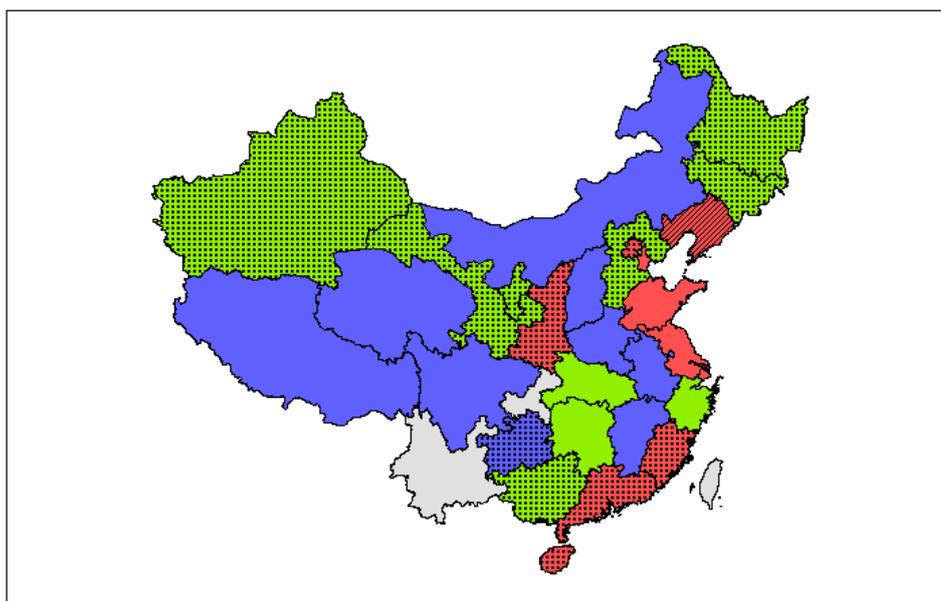
³⁵ Higher labor costs are adding to the burden of exporters already squeezed by a rising yuan, and increased prices for raw materials and [energy](#) „China Boomtown Withers as Buyers Push Worker Rights”, John Liu, Stephanie Wong, December 8, 2008 23:01 EST <http://www.bloomberg.com/apps/news?pid=20601109&sid=aPWSbqzzJG4&refer=home#>

Including students who graduated in 2008 and had not found work, it is forecasted that there would be more than 7 million university and college graduates hunting for jobs in 2009.³⁶

How would the new dominant transformation dynamics attain locations with different stages of transformation? Overall growth and export developments not only mask significant differences between sectors but these sectoral trends have regional implications. Disparities in the implication of possible impacts suggest spatial differences in the size of economic tensions and social conflicts that may develop. Map 6. depicts the provinces where the dynamics of FDI inflow had the most impact that are presumably the most exposed to decline owing to global crisis. One can see that most of the FDI went to coastal provinces and even if high, there were some that have been declining over the examined period.

Map 6.

Level and dynamics of change of the FDI at provinces between 1990 and 2006



Value and Changes of Per Capita FDI Rank of Provinces (1990-2006)	
value: 1990; changes: 1990-2006	
□ no data	(5)
■ high level of per capita FDI - improving	(4)
▨ high level of per capita FDI - stagnating	(1)
▩ high level of per capita FDI - declining	(5)
■ medium level of per capita FDI - improving	(3)
▩ medium level of per capita FDI - declining	(7)
■ low level of per capita FDI - improving	(8)
▩ low level of per capita FDI - declining	(1)

Compiled from the data of University of Michigan
All China Data Center, Provincial Statistics

³⁶ “China seen facing wave of unrest in 2009”, by Chris Buckley referring to Huang Huo, interviewed reporter of Xinhua News Agency, Tue Jan 6, 2009 6:27am EST
<http://ca.reuters.com/article/topNews/idCATRE5050F520090106?pageNumber=2&virtualBrandChannel=>

The economic impact of the international turmoil on China is set to intensify³⁷ since China is strongly export sensitive. About 40 percent of the GDP is provided by exports. Expectations are for a sharp reduction in export growth as the impact of the international turmoil deepens in the US and Europe and it starts to hit demand in many emerging markets.

The Chinese government reported in mid-December 2008 that in November, for the first time in seven years, exports declined. Exports are expected to fall by 19 percent in the first quarter of 2009 due to global recession.³⁸ Overall export developments mask significant differences between sectors. In the toy industry alone – which produces the 70 percent of the world's toy, half of the 3,631 companies had gone under in 2008.³⁹ China's demand for oil is falling sharply and inventories are surging as the global economic downturn is gradually being felt. Industries such as the home appliance and steel sectors are seeing decreasing orders, with many steel makers suspending or cutting production, in turn leading to weakening demand for oil and gas.⁴⁰ Downturn is already felt in construction, which is one of the biggest drivers of China's expansion, contributing a quarter of fixed asset investment and employing 77 million people.⁴¹

Map 7. suggests the potential spatial impact of export decline according to the export share in the provincial level GDP. Presumably, from the point of view of export share in the GDP, the most vulnerable are Guangdong (91.53%), Shanghai (91.24%) and Jiangsu (60.55%), where external factors accumulate: they are also the major attraction for the FDI (Map 6.), and where the largest is the share of the market in output value compared to the state-owned and collective units and are the most influential provinces in macroeconomic growth.

³⁷ „**Negative economic indicators pile up as China is hit by global capitalist crisis**” by Jorge Martin Friday, *In Defense of Marxism*, 12. December, 2008 based on the report of the annual meeting of the Central Economic Work Conference. <http://www.marxist.com/china-hit-by-global-capitalist-crisis.htm>

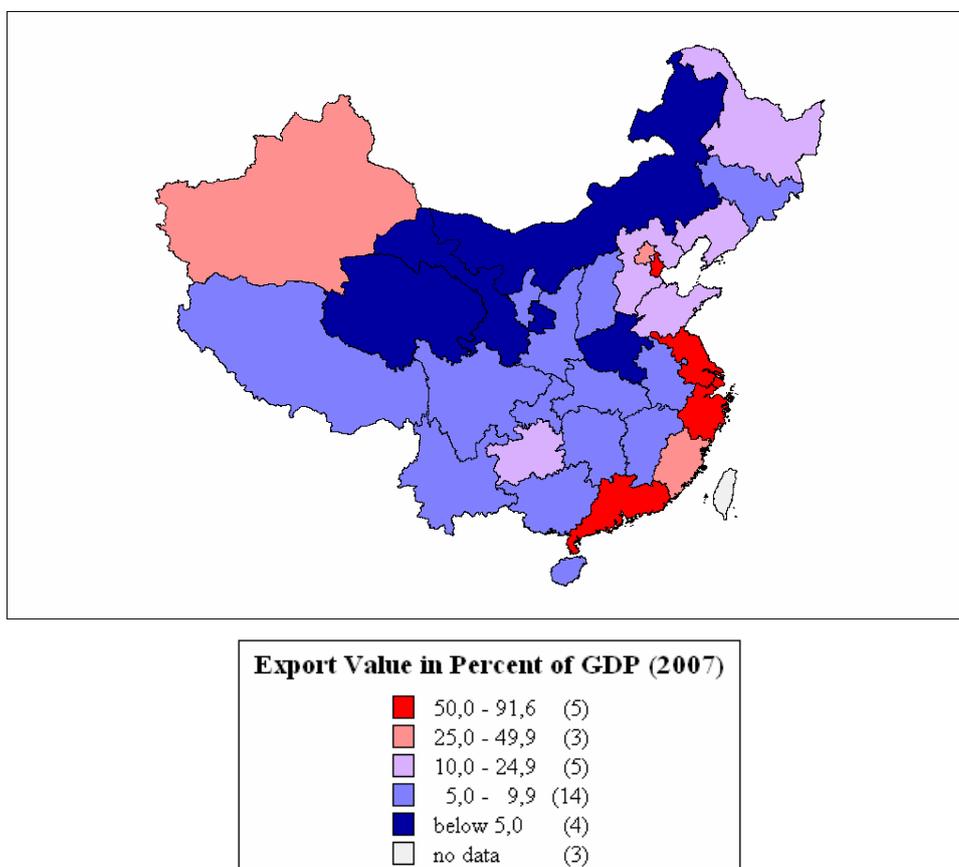
³⁸ Representative of the National Bureau of information cited in „China's Exports Probably Declined Most in a Decade” referred source: <http://www.bloomberg.com/> December 01-09-2009 http://news.stonebtb.com/Global_Trade/15641-China-s-Exports-Probably-Declined-Most-in-a-Decade-in-December.shtml

³⁹ **“In China, anger rises as economy falls”** by Barbara Demick *Los Angeles Times* <http://www.latimes.com/news/nationworld/world/la-fg-china-politics12-2008dec12.0.2413482.story> based on figures from the General Administration of Customs.

⁴⁰ **“China's oil demand falls sharply amid global crisis: top producer”**, BEIJING (AFP) Nov 16, 2008. <http://www.google.com/hostednews/afp/article/ALeqM5i4rqcwkToacYII7GFWNVUYjDo3Rw>

⁴¹ „**Negative economic indicators pile up as China is hit by global capitalist crisis**” reported by Jorge Martin, referring to Qu Hongbin, the chief China economist at HSBC, 12 December, 2008 <http://www.marxist.com/china-hit-by-global-capitalist-crisis.htm>

Export ratio in the GDP in 2007



Compiled from the data of China Statistical Yearbook 2008 and of Ministry of Commerce of the People's Republic of China, Import and Export by Province and Cities [2007/1-12]

Deceleration has strong impact on employment. Unemployment is already rising, according to official figures. However, official statistics do not include all of the country's army of migrant workers which in many cases are not registered to work in the urban areas and who are going to be the worst hit by the crisis. Real unemployment rate including migrant unemployed is contended to 12% rather than the official 4 percent predicted to worsen to 14 percent by next year.⁴² In January 2009, already up to 26 million of migrant workers from the 130 million are supposed to be unemployed.⁴³

Differences in vulnerability are further increased politically if we examine Map 8. that suggests the locations of possible major tensions according to the ratio of temporary inter-provincial migrants. Spatial distribution of the target provinces of migrants are in accord with

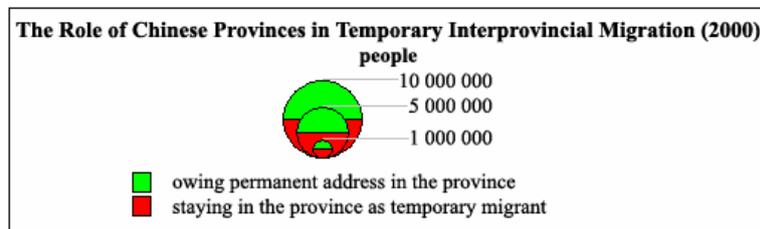
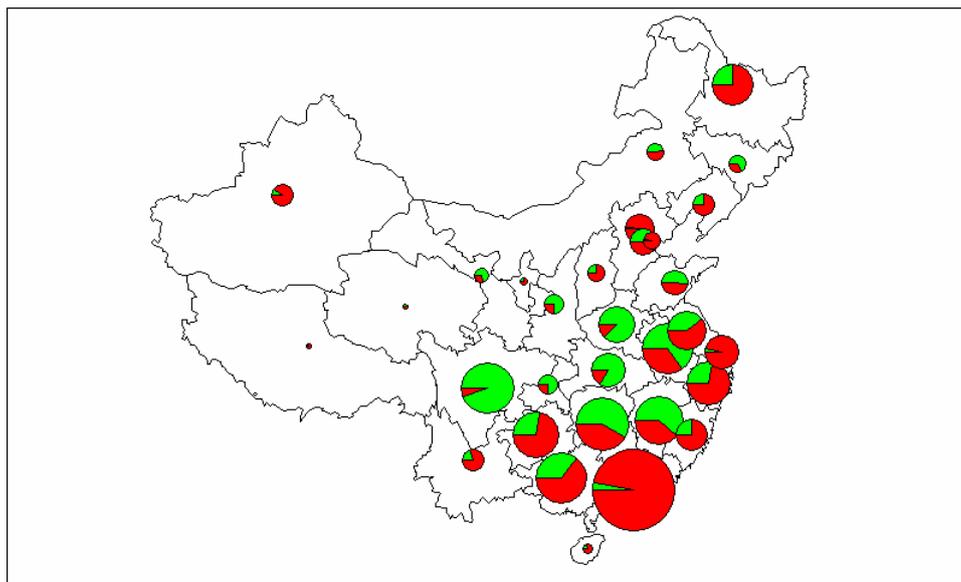
⁴² „Negative economic indicators ...” Martin, 2008

⁴³ “China: Up to 26 million ..” Chang, Feb. 2, 2009, Chang, Feb. 2, 2009, referring to Chen Xiwen, director of the Central Rural Work Leading Group, central government advisory body.

those of largest share of private GOV, largest export share in GDP and the major targets of FDI. The map simultaneously shows the ratio and size between those migrants who migrate *from* the given province and who migrated *to* that province. Emerging possible tensions in this case are reflected in two ways: the ratio and size of those who formerly migrated from the province and become entrapped in their province, many times landless, due to the decline of manpower needs in other provinces and the size of the tensions they might create when they are laid off in masses in their target provinces owing to close-downs or production decline. A recent government survey showed that slightly more than 15 percent of China's estimated 130 million migrant workers have returned to their hometowns and are now unemployed. Another 5 or 6 million new migrants enter the labor market each year, all together, 25 to 26 million rural migrant workers are now coming under pressures for employment.⁴⁴

Map 8.

**The number of temporary migrant workers migrating
from and *in* to the given province in 2000**



Compiled from the data of TAUBMANN, Wolfgang 2003

⁴⁴ “China: Up to 26 million.” Chang, Feb. 2, 2009, referring to Chen Xiwen, director of the Central Rural Work Leading Group, central government advisory body.

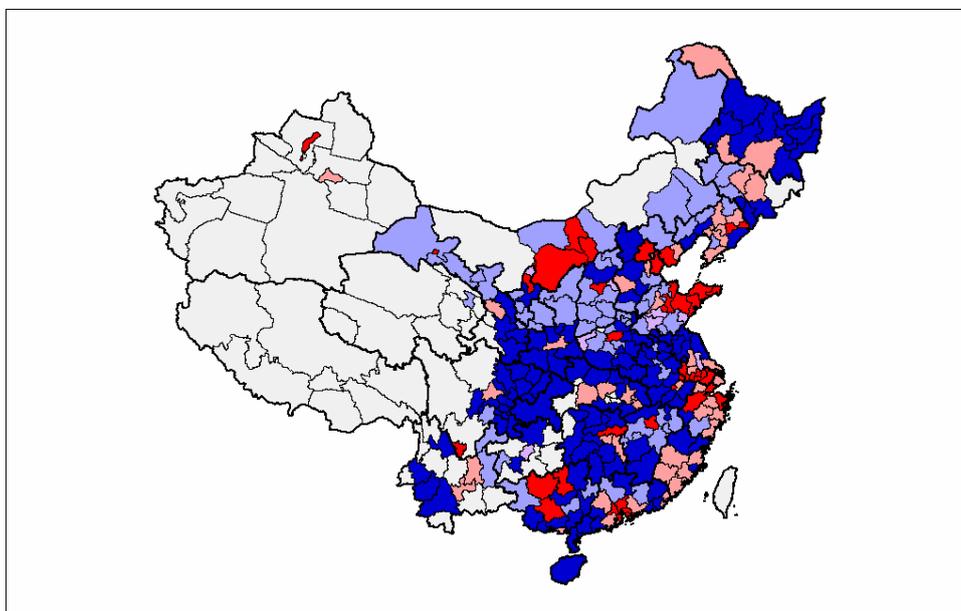
Tensions are already detectable in many of these provinces. Factory closures and rising unemployment in the Pearl River Delta and eastern coastal regions are sparking labor unrest, as workers stage demonstrations to demand their back pay and severance benefits from factories now in administration.⁴⁵

Map 9. shows that spatial differences in sensitivity to global impact are not only among provinces but also within those. We suppose that possible tensions are going to be concentrated to more dynamically developing prefectures presumably more sensitive to global impact. These are the prefectures where according to the map the level of GDP was high and further grew during the examined period. Presumably, at these prefectures the level of urbanization and industrialization is higher, and so are the concentration of migrant workers and the ratio of export. Tensions emerging from these facts *might add up* to spatial tensions that developed due to the fact that these prefectures are surrounded by ones with opposite dynamics: low level GDP with declining tendency. According to a recent report by the Chinese Academy of Social Sciences (CASS) close to 33 million urban residents lost their jobs in the second half of 2008.⁴⁶

⁴⁵ The Shenzhen Labor and Social Security Bureau on Tuesday publicized the names of 30 companies that owe a combined 12 million yuan (U.S. \$1.75 million) in back pay to workers. The Bureau demanded that executives report to the local labor authorities within 30 days, Xinhua said. In some places, the government has paid workers out of its own coffers to avoid further social unrest. Xinhua said the township government of Zhangmutou had pledged a payout to workers at the bankrupt Smart Union factory in Dongguan city worth 24 million yuan (U.S.\$3.5 million). **“Global Crisis Hits Chinese Migrant Workers”** [RFA reports](http://www.rfa.org/english/news/china/migrants-11042008054042.html) **Wednesday, November 05, 2008 - http://www.rfa.org/english/news/china/migrants-11042008054042.html**

⁴⁶ **“Hu Jintao’s Great Leap Backward”** by Willy Lam, *Far Eastern Economic Review*, **Posted January 9, 2009** <http://www.feer.com/essays/2009/january/hu-jintaos-great-leap-backward>

Connection of the level and the trends of economic development and its spatial disparities between 2000 and 2005



Economic Development Trends (2000-2005)	
based on value and changes of per capita GDP	
	no data (60)
	developed with rapid growth (41)
	developed with slow growth (51)
	development and growth around average (8)
	underdeveloped with rapid growth (65)
	underdeveloped with slow growth (121)

Compiled from the data of University of Michigan,
All China Data Center, City Statistics

Strong macroeconomic fundamentals in China and large balance of payment surpluses made the initial hit less dramatic than in many other countries. However, expected positive impacts of state development programs abroad and domestically take time, even in case of prompt economic policy decisions to revitalize the economy. Contrarily, consequences of unfavorable external impacts build up fast in a deeply integrated economy through trade and FDI. Signs of slow-down in economy caused by decelerating FDI and export growth, weaker domestic demand, declining employment, and mass lay-offs are already detectable, and further declines are expected.

Economic downturn and emerging political tensions cause prompt official reactions. Chinese experts say governments at different levels plan to earmark money for contingency reserve funds to help unpaid employees, most of them migrant workers. Plans were also being put forward for a mandatory reserve fund contribution by companies at start-up. China's national police chief has called on police officers to mend relations with ordinary Chinese people, and to be careful of how they use force to settle disputes.⁴⁷ In order to limit the impact of workers' protests new instructions on police behavior have been issued. The idea is to prevent small scale protests from escalating into massive riots or becoming generalized.⁴⁸ However, the outlook is not optimistic: "If in 2009 there is a large number of unemployed rural migrant laborers who cannot find work for half a year or longer, milling around in cities with no income, the problem will be even more serious". The report also stressed that protests are increasingly politicized, making it harder for officials to douse them by force or cash hand-outs. "Social conflicts have already formed a certain social, mass base so that as soon as there is an appropriate fuse it always swiftly explodes and clashes escalate quickly".⁴⁹ Workers are seeking protection and channels of forwarding dissatisfaction. Not only occasional mass protests develop in more frequency and larger scope and more violent, but also horizontal institutionalization of interests emerge.⁵⁰ The Congress of the All China Federation of Trade Unions announced that membership has reached 209 million, 9 million above their target for September and an increase of 16 million since January 2008. Of the total membership, 67 million are migrants, a third of who are now unionized. Demands are growing that the Union take more militant action. Even members of the intelligentsia have become more vocal, demanding political change in a petition released in mid-December that was modeled after the 1977 one that challenged the Soviet Union's domination of Czechoslovakia. "In the world, authoritarian systems are approaching the dusk of their endings," says the document, signed by more than 300 prominent people with further rising number of signers ever since.⁵¹

Lately, pressures to channel social grievances to avoid direct confrontations grow, forecasting increasing mass protests in the coming decades⁵². Responses however may be two-fold: one is the routine reaction by increasing political strictness and clamp-down before movements become politicized and propagate, delaying political transformation. The other is gradually retreating from the political subfield by building institutions to channel grievances

⁴⁷ "Global Crisis Hits Chinese Migrant Workers" *China Confidential*. Wednesday, November 05, 2008 *RFA reports*, <http://chinaconfidential.blogspot.com/2008/11/global-crisis-hits-chinese-migrant.html>

⁴⁸ „Negative economic indicators ..” Martin, 2008

⁴⁹ „China seen facing wave of unrest ...”, Buckley, 2009

⁵⁰ In Hunan province demobilized and retired soldiers formed a 100,000 strong "anti-corruption brigade" of laid off workers, poor peasants and lower class intellectuals. „Rural Reform and revolt in China” by Heiko Khoo *In Defense of Marxism*, Tuesday, 21 October 2008
<http://www.google.hu/search?hl=hu&q=%E2%80%9ERural+Reform+and+revolt+in+China%E2%80%9D+&meta=>

⁵¹ "In China, anger rises ... Demick, 2008

⁵² (China Security Spring 2007 p.3). Yu Jianrong director of the Rural Development Institute's Social Issues Research Center at the Chinese Academy of Social Sciences addressing the CCP leadership, cited by Heiko Khoo in *Rural Reform and ...*, 2008

before they become swell and propagate, enhancing political transformation. Both have their reality and might be implemented jointly or alternatively and emerge spatially differently. Signs of the first option are already there: during his visit to the military headquarter, Hu Jintao, apart from heeding the “absolute leadership of the party,” military personnel were urged by Mr. Hu to “comprehensively raise the army’s ability to tackle different types of threat to [national and social] security, to improve its capability for multifaceted military missions, and to strengthen its ability to engage in non-war-related military operations.”⁵³

⁵³ Cited in *Hu Jintao’s Great Leap ...*, Lam, 2009

CONCLUSION

This paper analyzes the impact of global financial and economic crisis on China's transformation process. First, it details the recent social and economic consequences of the global crisis in China and second, it deals with the effects these consequences have on the system's transformation. The paper builds on the Interactive Party-state Model for introducing the concept of system transformation as the process of retreat of the party-state network and the emergence of the new system outside of it. According to the model, retreat and emergence may occur first in economic or political subfield, depending on the specifics of power distribution in the party-state network. Using this concept, an operative tool was introduced: the dynamics of transformation allowing for the measurement of the multiple varieties in the direction and speed of the emergent field relative to that of the retreating network. The different types of transformation dynamics, their disparities in space and shifts in time are analyzed in the Chinese party-state, under the conditions of economic transformation first in an authoritarian political regime, accompanied by macroeconomic growth increasingly influenced by global dynamics. It also detailed the dominant types of transformation dynamics during the examined period. The correlation between changes in the dynamics of economic indicators and different types of transformation dynamics was demonstrated. Based on that, it draws some conclusions on the characteristics of the possible shift of dynamics of transformation, as a result of macroeconomic decline and disparate spatial impacts owing to global recession. Our hypothesis is that while overall growth directly fuelled domestic economic growth and indirectly contributed to the acceleration of economic transformation, overall recession will directly fuel domestic economic deceleration and might indirectly contribute to the acceleration of political transformation. It argues that the global recession, economic downturn and changing dominant dynamics in China might resemble the internal and external economic preconditions that have lead to the process of political transformation first in Eastern Europe and Soviet Union though under a different dominant transformation dynamics. Based on the theoretical projection of the model, the empirical experiences and its description in Eastern Europe and Soviet Union, it presumes that the changed dominant transformation dynamics could influence the commencement of a political transformation at locations directly or indirectly most severely attained by the fall-back. It underlies this argument indirectly with the fact that prefectures where the number of semi-free elections dramatically increased at township and county levels in 2002 in China, had overwhelmingly the same type of transformation dynamics as is presupposed to become dominant in the near future nation-wide. Moreover, the paper points to the fact that though semi-free elections emerged from 1995 onwards, the dramatic increase in the number semi-free elections occurred

in 2002, when a shift in dominant dynamics may be detected at affected prefectures. The type from which the shift occurred and to which it shifted corresponds to the nationwide dominant dynamics that existed until 2006-7 and the one predicted as an impact of the global shock from then on.

What we have seen that transformation dynamics are quite variable in time at sub-national level. Short-term changes of transformation dynamics might only temporarily and locally delegitimize the party and legitimacy might be regained. However, even this shift could be reversible. Yet, on the other hand, the case of semi-free elections gives the impression that even if in short-run, the network reacted to this change sensitively with retreat from the political sub-field. On the other hand, this type of dynamics might be prolonged due to the direct impact of global crisis. The longer-lasting tendency of the given dynamics might lead to further steps, locally or at national level giving way to irreversible processes of retreat and emergence and their propagation.

There is no experience on the process of political transformation second in a context of advanced economic transformation among transforming party-state systems. What we have is only economic transformation second in a context of advanced political transformation. Similarities in these two are the substantially underdeveloped emergent field and the strength of the network sphere in the given sub-fields in both cases. There are no developed horizontal organizations on the spot to take over functions from the retreating network. This gives the chance for the state to retain functions of intervention and for those fragmented interests within the network the advantage to form into horizontal organizations during retreat and find social groups as constituencies.

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