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The structure of party states might undergo the following sorts of changes:

1. Changes within patterns: For each pattern, the distribution of bargaining capacities may vary in time, space, and at different levels of aggregation of the network, while the network itself keeps its main pattern characteristics.

2. Shifts between patterns: If pattern characteristics change, the pattern itself will change, but no transformation of the system takes place. For example, in China a pattern shift occurred due to Mao Zedong's repeated decentralization campaigns, which led to temporary collapses of the self-exploiting pattern. By the time Deng Xiaoping took the power, the evolving pattern shift resulted in the stabilization of a new, self-withdrawing pattern of power distribution. A fundamental transformation of the system did not happen, however.

3. System change: If main structural elements wane, a system transformation will occur. Such changes occurred in Eastern European and Soviet Union and consecutively to its republics. These transformations, however, were not uniform as the patterns of power distribution also define the sequence, speed, and conditions of system transformation. In the *self-disintegrating* pattern political transformation takes place first, economic

transformation comes only thereafter. System transformation evolves here gradually under a democratic regime enhanced and accompanied by economic crisis. In the *self-withdrawing* pattern economic transformation occurs first, political transformation comes later. In this case transformation takes place gradually and under authoritarian rule accompanied by economic growth, just as in China since the early 1990s. In the *self-exploiting* pattern political and economic transformations overlap each other and are thus abrupt, just as they were in the case of Romania when the system of Ceaușescu collapsed. Their economic and political outcomes are uncertain due to long-stretched economic crisis (Csanádi, 2006, 2011a). The patterns of power distribution in party-state networks also contribute to different systemic outcomes, i.e. differences in the newly emerging political and economic systems (Bunce, 1999; Csanádi, 2006; Bohle & Greskovits, 2012).<sup>3</sup>

## **THE IPS MODEL AND ITS SENSITIVITY TO EXTERNAL AND INTERNAL CRISES**

The level of sensitivity and resistance of different patterns to external and internal pressures<sup>4</sup> and shocks are different, irrespective of whether these pressures are simultaneous or alternating. The level of sensitivity is mirrored by the responsiveness of the network to pressures and its ability to adapt to external and internal shocks. Differences in this level depend on the type of pattern of power distribution, since it is the pattern determining the capacity of actors to resist increasing extraction of internal resources in case external resources become scarce. The lower the capacity of actors within the network to resist, the higher is the capacity of the network to extract further resources from within. In this sense, the *self-exploiting* pattern is the least sensitive and the *self-withdrawing* pattern is the most sensitive (Csanádi, 2006).

The sensitivity and responsiveness of the system to external and internal adaptation pressures might vary according to the duration of external and internal shocks, the pattern of power distribution, geographical position (countries, provinces, prefectures at the same level of aggregation may have different levels of sensitivity and responsiveness), and the level of

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<sup>3</sup> The interactive party-state model built on network involving all actors of the society and defining structural inequalities substantially differs from „bureaucratic coordination” defined by Kornai (1993) that involves a multi-level hierarchy of sub- and superordination.

<sup>4</sup> From the point of view of the system, external pressures were for example for China and Vietnam, the death of Stalin in 1953 the domino collapse of European Communist systems in 1989-1991, the Asian crisis in the late 1990s, and the global crisis beginning in 2008. Internal shocks are for instance: the death of the country’s authoritarian leader (Gheorghiu-Dej in Romania in 1965, Mao in 1976); campaigns of decentralization (e.g. those of Mao during his reign); popular uprisings (like those in Eastern European party states in the early and mid-1950s and the Tiananmen Square events in China in 1989); or the periods of dramatic shortage of resources to distribute within the network.

aggregation (scale). Shocks may occur at different stages of the system's operation. They are possible during both the period of self-reproduction, when main characteristics of the system and the pattern prevail, and during the transformation of the system, when characteristics of the system and those of the pattern gradually fade and main traits of another system emerge. Adaptation may end up in regeneration, in other words, restructuring power relations without changing the patterns of power distribution, but they might also conclude in changing pattern or even lead to transformation.

According to the IPS model and historical evidence, regeneration of the system is possible if among the two categories of external and internal reproduction constraints of the system one gets hard, while the other remains soft. Pattern shifts occur when external and internal pressures are simultaneous and force the collapse of the system, but pressures last for a short period and, therefore, collapse is temporary and regeneration is possible. Historically, we only have examples for a shift from the self-exploiting pattern to self-disintegrating and self-withdrawing ones. Independent of pattern characteristics, transformation is likely to begin when both external and internal constraints become hard and they simultaneously persist for longer time. Whether external and internal constraints are alternating or simultaneous, and differences in their duration may explain why governments in similar patterns but at different periods as well as in the same period but in different patterns react differently to similar pressures. The process of transformation means the gradual or abrupt retreat of the network from overlapped subspheres and the expansion of the field outside the network. Retreat may be interpreted as relative or absolute: relative when expansion of the field outside the network is faster than that of the retreat of the network; absolute when the network physically retreats by being withdrawn, cut, are weakened or emptied (Csanádi, 2011). Absolute and relative retreat may occur parallel in time at different dimensions of the network.

Whether external and internal pressures of adaptation are alternating or simultaneous it also influences the dynamics of transformation. It may be speeding it up or slowing it down, while this impact might be different in space (among countries, provinces, prefectures etc.), in time, and at different levels of aggregation (at different scales) (Csanádi, 2006, 2009, 2011a, 2011b; Csanádi & Liu, 2012).

As explained in the IPS model, its elements as well as principles of connection and operation of the network are self-similar in time, and self-similar, too, at its different levels of aggregation and in different domains of the geographical space it covers (e.g. in different provinces of a country). Variations in the pattern may occur however, so the sensitivity and adaptation of lower level units can be different. These variations may change the spatial configuration of the dynamics of transformation at different periods on the given level, resulting in disparities in the dynamics of transformation, both in terms of space and

between various levels of aggregation. The possibility of such outcomes was demonstrated in the early and mid-2000s in the transforming Chinese self-withdrawing pattern (Csanádi and Lai, 2003; Csanádi, Lai & Gyuris, 2009, Csanádi, Nie and Li, 2015).

## **THE IPS MODEL INTERPRETATED ON CHINA – A SPECIFIC PATTERN OF POWER DISTRIBUTION**

Based on the above, we may conclude the following: by the end of the 1950s a version of the self-exploiting pattern evolved in China that due to several decentralization campaigns initiated by Mao during the „Great leap forward” and the Cultural Revolution repeatedly partially and temporary collapsed, and finally regenerated in a version of the self-withdrawing pattern. The decentralized nature of the Chinese power network means the subordination of state owned enterprises to the discretion of different level governmental organizations. Administratively, the lower the rank of the government level, the smaller the size and importance of the subordinated SOEs. The respective level of interlinking lines reach out to the positional, organizational and activity structure and individual party members in the state hierarchy in the state-owned economic units. By the time Deng Xiao Ping took power this pattern has stabilized: a relatively decentralized resource extraction and distribution, relatively decentralized interlinking lines in the party hierarchy that reached out to positional, activity and organizational structure and individuals in non-party fields and in strong feedbacks reaching higher levels of the party and state hierarchy.<sup>5</sup> During that process China changed from a variety of self-exploiting pattern to a variety of self-withdrawing pattern. As previous centralized resource extraction measures of self-exploiting patterns did not work due to the increased resisting capacity of actors in the decentralized pattern, from the mid 1980s, adapting to the new distribution of power, decentralizing reforms within the party-state network were implemented, further delegating decision-making power and resources to local levels. The decentralized power network is reflected in the decentralized institutional and decision-making structure: in the decentralized public functions, decentralized SOE subordination, decentralized possibilities of extraction and distribution of resources (owing to local subordination, taxes, and banks), and decentralized infrastructure financing that renders a key role for local governments in the local development process. Decentralization of earlier central discretions within the network – with some exceptions (e.g. 1994 resource centralizing tax reforms) -- continued through the 1980s to the present.

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<sup>5</sup> For example, managers of large state owned enterprises are members of the Central Committee of the CCP, and over 50 SOE top managers (party secretary, CEO and chairman of the board are in the nomenklatura responsibility of the Central Organization Department reviewed and approved by the Standing Committee of the Politburo [http://www.uscc.gov/sites/default/files/Research/10\\_26\\_11\\_CapitalTradeSOEStudy.pdf](http://www.uscc.gov/sites/default/files/Research/10_26_11_CapitalTradeSOEStudy.pdf) p. 75

Decentralizing reforms allow for expanded decision-making rights for both SOEs and sub-national government authorities followed by larger jurisdiction of sub-national party authorities. Decentralized power distribution, institutional responsibilities and respective management of economic development are reflected also in the share of local investments in all investments in fixed assets. According to Szamosszegi and Kyle (2011, p- 33, Figure IV-1), in 2009, investments in fixed assets undertaken, overseen and permitted by sub-national governments was overwhelming in all sectors, including manufacturing (95%), real-estate (98%), construction (92%), mining (68%) and different services (between 99 and 48 %).<sup>6</sup>

The new instruments of resource extraction and distribution did not change the self-similar characteristics of party-state systems. For example, the distribution of resources at all levels remained politically rational, thus leading the reproduction of the structure to frequently hardening constraints and thereby to decentralizing reform escalation by the center. Self-similarity and decentralized nature on national level attracts the potential multiplicity of patterns of power distribution between different levels of aggregation of the network and in space at different units of each aggregation level.<sup>7</sup> Different patterns of power distribution provide the varieties of operation at different local levels and their different bargaining positions within the network.<sup>8</sup>

## **STATE INTERVENTION, STATE OWNERSHIP**

State intervention and role of the state in party-state systems and during their transformation cannot be simplified to the activity of an authoritarian regime and its

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<sup>6</sup> Local level share of investments in services were also high but lower than in manufacturing and construction and differed by sub-sectors: Computer Services & Software (48%); Production and Supply of Electricity, Gas and Water (66%); Mining (68%); Transport, Storage and Post (71%); Financial Intermediation (74%); Financial Intermediation (77%); Scientific Research., Technical Service and Geologic Prospecting (78%), Education (95%); Health, Social Security an social Welfare (96%); Public Management and Social organization (97%); Culture, Sports and Entretainment (97%); Leasing and Business Services (98%); Management of Water Conservancy and Environmental and Pubic Facilities (98%); Hotel and Catering Services (98%); Services to Household and other Services (99%); Agriculture, Forestry, Animal Husbandry and Fishery (99%); Wholesale and Retail Sales (99%) (Szamosszegi and Kyle, 2011, p. 32, Figure IV-1).

<sup>7</sup> The pattern that finally stabilizes is influenced by local individual characteristics such as size, geographical and geopolitical location, traditions, historical development, economic development, economic structure, social stratification etc).

<sup>8</sup> Local governments at the eve of the global crisis were deprived by law from the chance to direct loans, periodically of issuing bonds and running budgetary deficit. However, they may apply for central budgetary resources; acquire centrally delegated bonds; nationalize collective land and sell land use rights; create local financial vehicles for infrastructure development who can file for loans; use locally extracted revenues from SOEs, non-state ventures, and land; use political influence through local party organs on local level branches of central banks for the development government projects.

bureaucracy despite the fact that the state monopolized the state-owned economy and thereby the extraction and distribution of resources. The state should be interpreted in the context of the party-state network in general and in its Chinese pattern specifics in particular. Owing to elements, principles of connection and operation, instruments of power of the party reach out to the positional, organizational, activity structure and individual party members in the non-party hierarchy. This refers to state-owned or state controlled enterprises, schools, cultural or health-care units, the army, the police, the trade union, the different level authorities and their organizations, including central government and government hights, the parliament, the state coucil etc. Varieties are found depending on which level of the party hierarchy these instuments of power origin from and are handeled, how dense these instruments are, whom do they reach, how short is the distance between actors holding party and non-party positions (there are cases when party and non-party positions overlap in one person), to which level of the party hierarchy the interlinking lines of those defined as strategic actors are linked, how dense their feed-backs are and which levels they reach. Thus, the Party, through its instruments of power politically monopolizes the state and state-functions, while the state monopolizes the state owned economy and resource distribution. Consequently, both indirectly through the state and by directly reaching out to SOEs, the Party politically monopolizes the state-owned economy and thereby resource extraction and distribution.<sup>9</sup>

From 2003 onwards, state ownership functions were delegated to the SASAC – State owned Assets Supervision and Administration Commission -- located at different levels of the state administration (until county level). This move did not change ownership structure, just the power distribution among organizations through modified subordination. All together in 2011 there were 25 000 centrally and regionally subordinated state owned and state controlled companies in the industry and construction sector, a small portion of all 325,609 enterprises (NBS, 2013). If subsidiaries are included, their number increases to 100,000. From the 25,000, the number of centrally controlled enterprises is 120 that increases to 10,000 with subsidiaries included (Szamosszegi and Kyle, 2011). The three top positions (party secretary, chairman of the board and CEO) of the top 50 SOEs from the 120 centrally managed state owned enterprises are appointed directly by the central cadre department called CPC Organization Department (COD) and the selected executives are reviewed and approved by the Standing Committee of the Politburo. Different levels of subordination

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<sup>9</sup> The central *nomenklatura* list comprises the top 5,000 positions in the Party-state, all of which are controlled by the COD (M.Cs. Central organization Department). The list includes all ministerial and vice-ministerial positions, provincial governorships and first Party secretary appointments, as well as appointments of university chancellors, presidents of the Academy of Science and Academy of Social Sciences, etc. [http://www.uscc.gov/sites/default/files/Research/10\\_26\\_11\\_CapitalTradeSOEStudy.pdf](http://www.uscc.gov/sites/default/files/Research/10_26_11_CapitalTradeSOEStudy.pdf) p. 76. Similar nomenklatura lists composed of lower positions level are handled by lower level CODs.

means one level up control by the party hierarchy of local government organizations and direct control by the party organization of the management of the same level. This concerns the enterprise manager, division heads and party secretary within the enterprise. According to Pei, half of the senior executives are appointed by the CCP (Pei Mingxing referred by Szamosszegi and Kyle, 2011). State owned or state dominated enterprises' share in sales revenues are way much concentrated than their number, though unevenly distributed at provincial level: for example, in 2010, their share in VAT taxes ranged from 16 to 91 percent, and from 16 to 71 percent of all urban fixed investments in the provinces and were employing 14-53 percent of the workers. Sales revenues shares in strategic industries are concentrated to some few large state-owned enterprises subordinated to the central SASAC (Table 1).

Not only state-owned and state controlled enterprises are embedded in the network, but so are state-owned banks. In 2009, nearly three-quarters of China's bank assets were controlled by banks in which the state, at a minimum, was the largest shareholder (Szamosszegi and Kyle, 2011, p. 43). Interlinking dependency lines embrace state-owned and state-controlled banks, be they centers or affiliates, the same way as other non-party organizations at different levels and influence the political rationality of their resource distribution behavior.

*Table 1.*

**Number of SOEs in strategic sectors and their share of sales-revenue in**

<b>Industry</b>	<b>Number of large SOEs</b>	<b>Share of sales revenue %</b>
<b>Coal</b>	3	13.0
<b>Shipping</b>	3	60.7
<b>Power</b>	8	70.0
<b>Automobile</b>	6	74.0
<b>Air transport</b>	5	76.0
<b>Petroleum</b>	4	76.6
<b>Telecom</b>	3	95.0

Source: compiled by the author from [http://www.uscc.gov/sites/default/files/Research/10\\_26\\_11\\_CapitalTradeSOEStudy.pdf](http://www.uscc.gov/sites/default/files/Research/10_26_11_CapitalTradeSOEStudy.pdf)



Unfortunately NBS does not provide national or provincial level investment data by enterprise size, neither scale in itself is distinguished. Only their number, gross industrial output value and assets are published according to large-and-medium sized enterprises and according to national and provincial level. Still, we can confirm that in 2013 the average share in the numbers of large and middle size enterprises from all enterprises on national level was 17.9 that varied from 11.0 to 30.9%. This share is a small portion of the average in gross industrial output value 65.2 (provincially between 50.2 and 80.0 % in 2011) and that of fixed assets 71.6 (57.1-85.7%) (China Statistical Yearbook 2014). Thus, the importance of large and medium sized enterprises is way much larger than their number would suggest. Moreover, judging from the different regional dispersion of the share in the number, gross industrial output value and assets of large and medium sized enterprises by province, the extent of attracting, extracting, allocating and resisting capacity within the network at the given level and thereby its capacity for self-reproduction will differ substantially, and so will the capacity for cumulated integration of enterprises into the network. This inequality may result in different structural patterns of power distribution that in other words, implies the different ways and extent of transformation of the economic system at local levels. However, no matter the shares, the strength, the extracting and distributing capacity and the level of aggregation in the distribution of power, self-similar distributional characteristics according to the model's predictions should prevail within the network.

Empirical data of a city level survey and our concept of self-similarity of selective distribution at different aggregation levels and at different units on each aggregation however allows us to expand the scope of our findings that support our concept to the Chinese system. During three years of observation when crisis hit the most, resource distribution criteria did not differ from those characteristic in party states. Large, state owned and strongly integrated enterprises into the decision-making system were in the focus of distributing authorities according to politically rational selection criteria (Csanadi, 2006).<sup>10</sup>

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<sup>10</sup> Chances to get privileged are above the average for enterprises which are large, state-owned or state-controlled, centrally subordinated, with strong connections to banks and government departments and who have combined personal positions in party and state forums, with government as collateral, exporting and strongly hit by the crisis reacting to zero or negative profit with fund raising and R and D rather than rationalization. On the other hand, chances are below average for those non-state medium and small enterprises subordinated to lower levels of the administration who were not as strongly hit by the crisis but are profit sensitive reacting to zero profit or loss with rationalizations of production and producing factors, have no strong connections to banks and government departments and have no collaterals. Despite substantial economic transformation allocation preferences of state intervention during crisis motivate drive for growth and integration into the decision-making network rather than adaptation to market circumstances (Csanádi and Liu, 2012).

## **DYNAMICS OF STATE FUNCTIONS IN THE CONTEXT OF THE NETWORK AND ITS PATTERN SPECIFICS**

Owing to strong resisting capacity to interventions, China's party-state pattern is highly sensitive to hardening external and internal constraints both in case of their alternative or simultaneous occurrence and length of prevalence. Pressures during operation and during transformation will influence the advancement or retreat of state functions and the implementation of monetary or fiscal means. However, shock induced by the crisis activates state interventions, interventions activate the decision-making network, the network in turn, activates the system characteristics of resource distribution and spur the structural motivation of economic units for growth and thereby for repetitive investment overheating. Owing to self-similar characteristics of the network, overheating is present in time, space and different aggregation levels, during the self-reproduction and the transformation of the network.<sup>11</sup>

Transformation is generally simplified to the decentralization and withdrawal of monopolized state functions and privatization of state-owned economy and their transfer to an indirectly regulated expanding market. However, in reality regarding the economy they should be interpreted as a multidimensional process. The systemic transformation process evolves as the party-state network is retreating as a social system from monopolized sub-spheres, and the sub-spheres of a new social system are emerging outside of the network. Transformation may be absolute, when physical changes in the network occur: bargaining through the channels declines (the network is emptied), weakened, constrained, or cut off. Transformation may be also relative, when either the network does not retreat but emergence and expansion of the new subfiled (political or economic) is in process, or the speed of retreat is faster than the speed of emergence, or both are expanding but the speed of emerging subfiled is higher. The dynamics of relative or absolute retreat and emergence develop in strong interaction. Variations in the absolute and relative dynamics of transformation and their combinations will present different types of transformation dynamics that may show different spatial configurations at different levels of aggregation (Csanádi, Gyuris, Lai, 2009).

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<sup>11</sup> Heep (2014) compares Chinese state functions to those of the non-traditional developmental states in general and concludes that there are major similarities since reforms begun in in late 1970, strengthened in early 1990s after Deng's southern tour. Factors are: the rationalized functions of planning considering reforms, the reliance on marketization, long-term macro-economic policy and selective development, comprehensive industrial strategies. At the same time, Heep refers to factors that show inconsistency with the criteria of developmental states: the expanded state ownership of institutions of resource distribution, detailed state intervention, monopoly over resource distribution, large influence of state owned enterprises, high degree of control over the financial system, political purpose of development to keep the Party's grip on power and the faint influence of private entrepreneurs. Factors mentioned by Heep are characteristic phenomena of party-state systems described by the IPS model that Heep does not consider.

Different transformation dynamics are influenced by multiple individual historical, cultural, economic geopolitical reasons but have also multidimensional system-conforming factors that interplay with those. Such are: differences among patterns, differences within patterns, differences due to the density and strictness of intertwine between aggregation levels and the different dynamics of the external environment. All these individual, structural characteristics and timing will influence the differences in the sequence (first economic or political, or simultaneous), speed (gradual or abrupt) and conditions of transformation (economic transformation under authoritarian or democratic rule, accompanied by macroeconomic growth or decline). Sequence, speed and conditions however are not issues of strategic choice but instead are defined by structural constraints. However, no matter the pattern, the process of transformation is not a continuum in direction or speed: it may speed up, slow down and even temporary reverse under alternative or simultaneous external and internal pressures of adaptation. Dynamics of transformation may change temporarily in space, in time and among different aggregation levels, and may influence the interrelated dynamics of absolute and relative transformation (Csanádi, 2006, 2009, 2011a, 2011b; Csanádi and Liu, 2012). The higher the resisting capacity of actors, the more frequent the occasions of hardening constraints of self-reproduction of the system and the stronger is the escalation of pattern-conforming instruments during adaptation that contribute to the evolution of system transformation. The higher the frequency of meeting hardening constraints the more gradual the transformation process through adaptation will be. Oppositely, the lower the resisting capacity, the less frequently the system meets hard constraints of self-reproduction inciting adaptation, the more abrupt the initials of transformation will be since adaptation was not necessary. The same structural reasons will contribute to different systemic outcomes (Bunce, 1999; Csanádi, 2006; Bohle & Greskovits, 2012). Uncertainties during transformation in all patterns are cumulated (Bunce, Csanádi, 1993). What differs is the level, intensity and persistence of cumulated uncertainty and the predictability of outcome. In countries located in the Self-exploiting pattern cumulated uncertainties are higher, last longer and outcome will be less predictable and in a longer spectrum (see from Romania to Kirgizstan) than at countries in the context of the other two patterns.

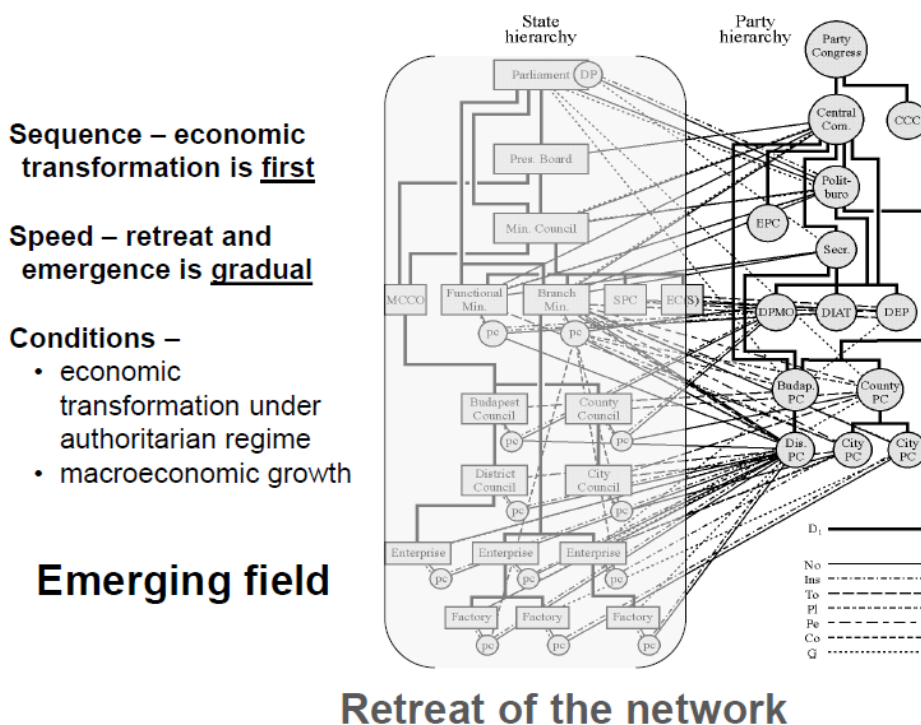
During the process of transformation as the network retreats lines overlapping the economic and political and administrative sub-spheres are cut, emptied, weakened or withdrawn. This may occur gradually or abruptly, sequentially or parallel in different sub-fields, and different levels of aggregation, and at different units at one aggregation level, according to the given pattern influenced by the expansion of the field outside the retreating network.

## **CHINA, A PATTERN VARIETY OF TRANSFORMING PARTY-STATES**

Not only delegation of decision-making power to sub-national levels and state-owned enterprises occurred from the mid 1980s but also the start of the absolute retreat of the network: as cooperatives in agriculture were dissolved, and household responsibility system introduced, interlinking lines formerly attached to cooperatives remained in limbo. Also the scope and quantity of compulsory production for state procurement was narrowed, higher prices in state procurement were applied, the dual track system was introduced, thereby allowing peasants to sell their over-the-plan products on market prices, Retreat of the network in agriculture was followed by the the escalation of decentralized decisions (resource revealing reforms) through the network in industry from early-mid 1980s. This process went parallel to the introduction of dual-track pricing in the industry, and the attraction of FDI with the opening-up. Both processes further strengthened the decentralized character of the Chinese power network, the resisting capacity of local actors that lead to frequently hardening reproduction constraints of the whole network (Csanádi, 2005). Reactions to tensions provoked economic restrictions and political centralization efforts and thereby the temporary expansion of the network from the late 1980s that culminated in the Tiannanmen Square protests and its bloody clamp down. But centralizing efforts soon failed, the economy slowed down drastically provoking hardening reproduction constraints of the network in the self-withdrawing pattern. From early 1990s on, parallel to rebooted decentralizing reforms within the network, the implementation of pattern-conforming measures accelerated, gradually increasing the field outside the network.

The Chinese pattern of power distribution and dynamics provides the „Chinese style” of transformation: the gradual, decentralizing reforms within the decentralized network and the gradual reforms outside the network expanding the market sphere, reflect a process of economic transformation first (Figure 2), under authoritarian rule accompanied by macro-economic growth. During this process, party legitimacy prevailed as resources extracted from the expanding private sphere could be redistributed within the network allowing its reproduction along the self-similar distributional priorities.

### Transformation „Chinese style”



**Note:** The basic network is represented by the party and state hierarchy with vertical and interlinking lines to state property. The above structure was traced down empirically in the Hungarian case therefore, names of ministries, highest organizations, or party departments and parliament as well as name and density of interlinking dependency lines vary but elements, connecting principles and operating principles are self-similar.<sup>12</sup> This figure serves as illustration of the basis of the network.

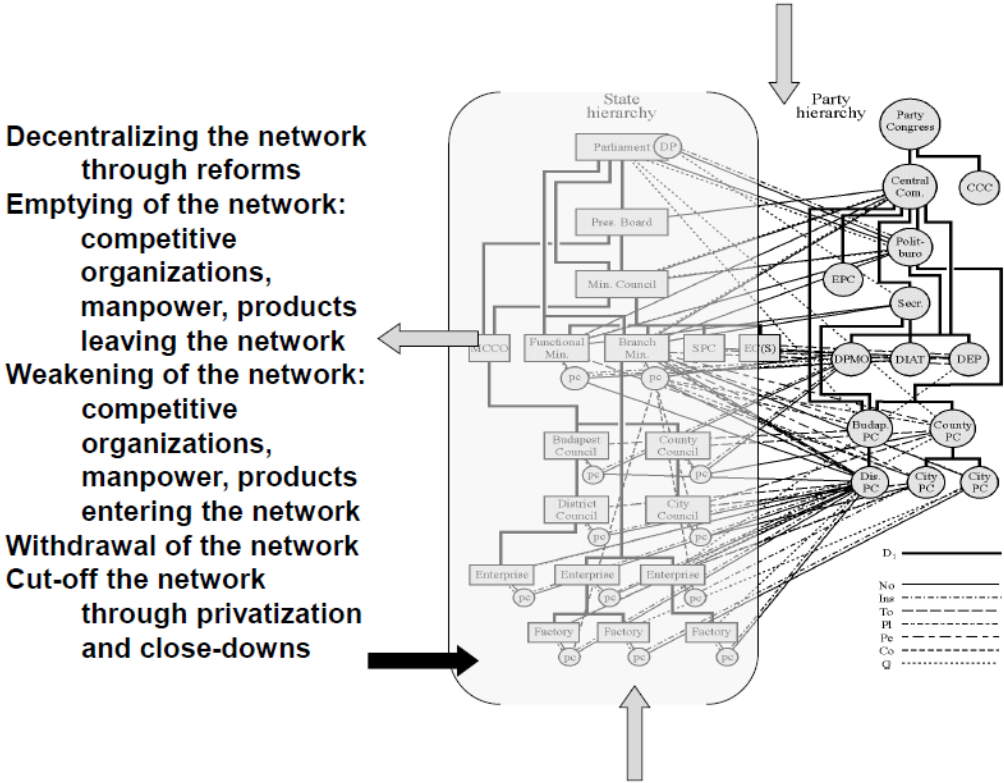
The process of retreat (Figure 3) begun with the decentralization of decisions within the network for bringing decisions to the level of real economy labelled enterprise and manager responsibility system regarding production, marketing, investment decisions, expansion plans, and staff, that also provided profit retention opportunities. Later competitive capital, manpower and organizations empty the network (strip off) to join the expanding market sphere. At the same time alternative capital, actors and interests enter the network as owners

<sup>12</sup> Hierarchical (D<sub>1</sub>) lines within party and state hierarchy; interlinking (D<sub>2</sub>) lines as instruments of Party power: No nomenklatura responsibility; Ins instructor system To subject-matter (topic) responsibility system; Pl party lieson system: coordination and consultation between branch ministries and local party organizations; Pe connections of party organizations in enterprises with the Personnel Department of the branch ministries concerning cadre issues Co regular consultation between enterprise pc and ministry pc; G interventions in the name of general economic policy responsibilities of the party; DP deputies in the Parliament with party membership; PC local party committees; pc party committees within organizations; CCC central controlling committee; EPC Economic Policy Committee; DPMO Department of Party Mass Organizations; DIAT Department of Industry, Agricultureasn transportation; DEP Department of Economic Policy; MCCO Ministerial Councils’ Council Office; SPC State Planning Office; EC(S) Economic Committee of the State

in joint ventures, shareholders, members in Peoples' Parliament or in inter-ministerial committees etc..

Figure 3

**Retreating network from the economic sub-field in China**



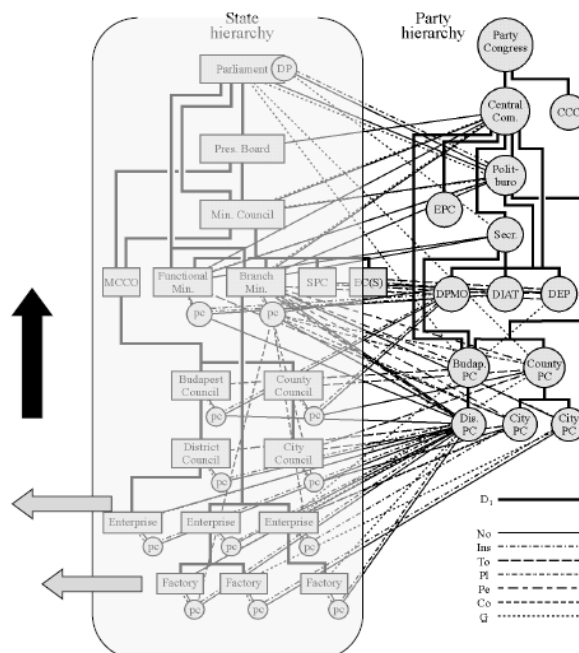
This process, owing to the infiltration of alternative decisions, interests, organizations, formally and informally weakens the influence of the party on the economy through the network. Former distributive functions were withdrawn from lower levels allowing enterprises greater freedom in deciding about investments up to a certain volume. The network has been increasingly cut through privatization, close-downs and bankruptcy of state-owned enterprises, leaving the direct interlinking and hierarchical lines in limbo. Simultaneously the party also makes efforts to expand its formal and informal influence on the private sphere through private or collective enterprises founded by local party executives, or by succeeding to form party cells in private enterprises.

The market field began to expand when (Figure 4) the dual-track pricing regulations were introduced both in agriculture and industry that allowed producers to sell their over-the plan agricultural and industrial products on market prices. Besides dual track system, further expansion of the market was allowed by „opening up”. This move attracted resources from the global economy in the form of FDI in the form of green field investments outside the network or in economic units embraced by the network.

Figure 4

### Expansion of the economic sub-sphere outside the network in China

- Dual-track pricing in the agriculture and the industry
- Allowing the increase of the number of domestic and foreign economic units and capital outside the network
- Privatized enterprises
- Transferred (stripped off) convertible capacity
- The increase of the overlapping segment through joint ventures and shareholding enterprises



New private enterprises (both domestic and foreign) were allowed to be set up, the number of special economic zones were increased and investment-friendly laws were implemented that attracted foreign capital. Further expansion was boosted by those who transferred capital, organization and skills and manpower from the network to the private sphere and by those SOEs and collective units who were privatized. All of these activities stimulated the fast growth of rural to urban migration absorbed by the expanding competitive sphere.

### ADAPTATION TO EXTERNAL SHOCKS IN THE TRANSFORMING SYSTEM PATTERN IN CHINA

Empirical research results reveal that despite China's substantial transformation towards a market economy, the occasional need for increased state intervention has mobilized the characteristics of the party-state system at all aggregation levels temporarily increasing the expansion of the network. Pattern characteristics determine the extent of state intervention and its pattern-conforming instruments of resource extraction and distribution. Disparities in the dynamics of transformation may be detected also at subnational levels of the network,

supposedly depending on the number of large enterprises, the power distribution at local level, capacity to attract, extract and distribute resources. Thus, the different sensitivity and adaptation of lower level units may change the spatial configuration of the dynamics of transformation at different periods on the given level. Such characteristics were demonstrated in the early and mid 2000 in the transforming Chinese self-withdrawing pattern (Csanádi, Lai & Gyuris, 2009). „Local level” and embeddedness variegation will differ in different historical periods of development level of centralization (nationally and locally) extension, depth and density of the network, in different stages of operation and of transformation and in its different dynamics and degree of openness.

The stimulus package introduced in 2008 was the direct adaptive consequence of an external shock caused by the global crisis and the subsequent government reaction in the form of intensified state intervention that mobilized economic actors. In fact, state intervention opened up new chances for selective resource distribution in the form of central, local budgetary and bank resources in the construction sector, with preference given to large-size and state-owned enterprises cumulatively integrated enterprises in the decision-making processes through the network. Newly opening chances similarly mobilized the politically rational economic behavior of actors to hoard resources and invest. Owing to the political rationality of economic behavior in the system, market-conforming “personnel policy” incentives and decentralization of fiscal decisions within the network will be translated to politically rational rather than efficiency oriented behavior while promoting economic growth as expected by Knight (2012) based on the concept of developmental state.

This phenomenon took shape during the implementation of a stimulus package after 2008 in the selective allocation of central and local budgetary and bank resources to enterprises. The locus of increasing activity in both the geographical space and the hierarchy of aggregation levels was determined by the specifics of decentralized Chinese party-state system and the decentralized distribution of responsibilities and chances to extract and allocate resources. Systemic characteristics of the party-state together with their Chinese specifics resulted in investment overheating and steadily growing local indebtedness through large and state-owned enterprises and local governments. The features of China’s transforming economy further amplified this process, since the increased demand for inputs on the side of enterprises, which state intervention privileged due to its systemic priorities, also mobilized actors in the private sphere (Csanádi, 2013b, Yu, 2011). Consequences were: overheating, excess capacity, non performing loans, local indebtedness and slower GDP growth.



## CONCLUSIONS

The aim of the study was to define the main system characteristics of the emerging Chinese market, the structural characteristics of the „Chinese style” as well as the state’s behavior in the context of those characteristics. Based on the implemented comparative analytical model supported by empirical research we argue that the Chinese system and its specifics should not be pressed into the present standards of varieties of capitalism. China is a communist system described with a politically monopolized power network among actors in the party, the state and the economy, with its self-similar elements, principles of connection and operation in time, space and levels of aggregation. At the same time Chinese party-state is a structural variety of the patterns of power distribution characterized by a pattern of decentralized power network with pattern-conforming instruments of resource extraction and distribution: resource creating reforms outside the network and decentralizing reforms within the network. Chinese system’s pattern-conforming operation simultaneously incites pattern-conforming system transformation. Specifics of the Chinese pattern of power distribution and instruments of self-reproduction lead to specific sequence, speed and conditions of system transformation. The sequence is: economic transformation first, as the network is retreating from the economic subfield while the market field outside the network is expanding. The speed of the transformation process is gradual, while conditions of economic transformation and thereby the emerging market are defined by an authoritarian regime and accompanied by macroeconomic growth that preserves party legitimacy.

Chinese self-withdrawing pattern and transformation specifics differ from that of its former European counterparts with self-exploiting and self-disintegrating patterns of power distribution. These patterns transform either first politically rather than economically or through abrupt collapse of the network and parallel transformation of all subfields. Thus, the Chinese communist system should be compared to – but not identified with -- other present or former transforming party-state systems with similar or different patterns of power distribution. At the same time, the transforming Chinese communist system and the transformed post- socialist systems are not comparable on common systemic grounds.

In the Chinese transformation process the role and actions of the likely “fragmented” polymorphous state (Howell, 2006) embedded in the power network both on national and local levels and the consequence of its actions in the transforming systemic context is similarly complex. This complexity is reflected in the state intervention during global crisis: intervention provided new chances for resource distribution that mobilized distribution priorities and politically rational economic behavior of actors, characteristic to party-state systems. Consequently, no wonder that the Chinese development cannot smoothly fit in the strict criteria of the varieties of capitalism. In fact, in case we were looking for an

institutionalized model – be it communist or capitalist – it will show incoherence in all dimensions (Peck and Zhang, 2013; Zhang and Peck, 2014, Howell, 2006, Rutley, 2012).<sup>13</sup>

What we find behind the incoherence is a dynamic process that presents simultaneously (1) The structural and dynamic self-similar characteristics of party-state systems in general: in time, in space and at different levels of aggregation. (2) The structural and dynamic specifics of the Chinese party-state system in particular: decentralized power network on national level and different varieties of party-state power structures on local levels; (3) The impact of the specific pattern characteristics of the Chinese system on the transformation regarding the sequence, speed and political and economic conditions of transformation on national and different sub-national levels of aggregation; (4) The characteristics of the emerging and expanding path-dependent and geopolitically influenced capitalist economy strongly tied to the politically monopolized network (on national and local levels) that is gradually, and spatially differently, retreating from the economic sub-sphere; (5) The strong interaction between the retreating network and emerging market sphere at national and sub-national levels while adapting to external pressures, that provide their changing dynamics during different periods of transformation. Consequently, transformation dynamics is not a linear process on national or local levels: speed and conditions of transformation are constantly in move due to the changing dynamics of the retreating network and emerging market sphere, and their interaction and external dynamics.

Concluding the above, China is a transforming party-state system with characteristics of decentralized pattern of power distribution and respective sequence, speed and conditions of transformation that may differ in time, in space and at different levels of its aggregation.

The transforming Chinese party-state system should *not* be identified with any variety of capitalist systems, or with a centralized pattern of communist systems, neither with concluded system transformations of post-socialist countries. Varieties of capitalism and socialism attributed to the Chinese pattern of power – be they approached from political, economic, central or local dimensions -- should be interpreted in the context of China's transforming structural and dynamic party-state specifics at all aggregation levels. Based on the above, phenomena of hybrid capitalism, developmental state, variegated capitalism, polymorphous, predatory, entrepreneur state, state socialism, state socialism etc. may all be simultaneously untangled approaching from different angles of the complex structure. However, they are all deeply embedded in the self-similar and specific structural and dynamic features of the transforming Chinese party-state system. For example, hybrid

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<sup>13</sup> Peck and Zhang describing variegated capitalism at local levels and Howell when criticizing the efforts of presenting China as a developmental state concluding on polymorphous state both arguing about the decentralized state functions, administration and variety of goals and behavior of local governments find the phenomena behind which the general and specific structural characteristics lay (Csanádi, 1997, 2006);

capitalism is revealed from the angle of the economy, developmental state from the angle of the central administrative structure, polymorphous state and variegated capitalism from the angle of different levels of aggregation of the power network, and state-socialism from the angle of the political subfield. However, in themselves, neither of these approaches consider the the context they are embedded: the complex network of dependency and interest promotion among party- state- and economic decision-makers, and its different levels of aggregation, the different structures in space on one aggregation level and its consequences that amalgamate all these different angles in one complex transforming system and its pattern- and country-specific characteristics.<sup>14</sup> By neglecting the network these approaches can not consider the complexity the dynamics of this network either: the mutual impact of different operations emerging from different distributions of power both at different aggregation levels and in space at each aggregation level.

Thus, China is not an outlier capitalist system, neither is a socialist market economy or in itself, a developmental state without communist system characteristics but one of the well embedded patterns of the communist power network in a period of system transformation described by the Interactive Party-State model. Therefore, the role and behavior of the state at central and local levels in China should also be interpreted in the context of the transforming politically monopolized decentralized power network, and its dynamics -- both at „normal” times and at crisis situations. Economic functions, actions, organizations and behavior of the central and local governments should be analyzed embedded in the power network (be those taxation, reforms, centralization, decentralization, fiscal, monetary restrictions or stimulus packages, privatization, close-down, restructuring of SOEs, selective distribution of resources, lending, clamp down on corruption etc). Similarly, behavior of groups, organizations, or individual actors should not be analyzed without their systemic and dynamic context. State’s role and expanding or shrinking market at any level and time should be interpreted in strong interaction with the dynamics of the retreating or expanding network and domestic and external pressures.

Owing to the simultaneous presence of different systems in the transforming Chinese party-state, each „snapshot” on the complex system will differ in different historical periods of development in different stages of its transformation and with its actual interaction with actual international context.

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<sup>14</sup> The finest distinction and simultaneous interdependency between the state, state ownership and emerging capitalism, where resources for reproducing political legitimacy is served by the expanding private field is presented by McNally (2014, p. 122), without however relying on the power network.

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