

Csanádi, Mária

**Working Paper**

## Reactions to Short-Term Adaptation Pressures During Transformation in Party-States: The Case of China

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MŰHELYTANULMÁNYOK

DISCUSSION PAPERS

MT-DP – 2010/31

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Adaptation Pressures During  
Transformation in Party-States:  
The Case of China**

MARIA CSANÁDI

Discussion papers  
MT-DP – 2010/31  
Institute of Economics, Hungarian Academy of Sciences

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Reactions to Short-Term Adaptation Pressures During Transformation in Party-States:  
The Case of China

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# Reactions to Short-Term Adaptation Pressures During Transformation in Party-States The Case of China<sup>1</sup>

MARIA CSANÁDI

## Abstract

How do external and internal adaptation pressures influence the transformation of the party-state system in China? How susceptible is the Chinese system transformation to those impacts? This paper deals with the sensitivity of the transformation process on the short-term under different external conditions: both during the period of global economic growth and the period of global crisis. Our approach is institutional and systemic, in view of the postulates of the Interactive Party-State (IPS) model (Csanádi, 2006). We shall conclude that the transformation process demonstrates sensitivity to short-term impacts that cause fluctuations in the direction and speed of the transformation process both during growth and decline. Moreover, we shall reveal that sensitivity to- and consequences of internal and external adaptation pressures show different spatial characteristics.

**Keywords:** party-state model, short-term shocks, system transformation, global crisis, migration, economic policy reactions, prefectures

JEL: F5, D78, R58, J08, O15, E24

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Here I want to thank the contribution of the members of the Chinese side of the field research: first of all, to professor Li Shi, who offered me this rare opportunity to join his large collaborative survey on migrant workers from my special system-oriented angle, provided a Chinese research assistant and allowed SEBA doctorate students to participate in the fieldwork and newspaper analysis. I am also indebted to my Hungarian research assistant and co-worker Ferenc Gyuris who continuously controls the consistency of my data-set, assembles maps and

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tables and constructively iterates results. This research would never occur without the financial support of the Hungarian National research Fund in 2007-10.

# A rövid távú adaptációs nyomások hatása a pártállamok átalakulására: Kína példája

CSANÁDI MÁRIA

## Összefoglaló

Hogyan befolyásolják a külső és belső adaptációs nyomások a pártállam átalakulását Kínában? Mennyire kiszolgáltatott ezeknek a hatásoknak a kínai rendszerátalakulás? A tanulmány az átalakulási folyamat érzékenységevel foglalkozik rövid távú nyomás esetén, különböző külső feltételek mellett: a globális növekedés és a globális válság időszakában. Megközelítésünk intézményi és rendszerszemponitú, amely az interaktív pártállami rendszer modelljét veszi alapul (Csanádi, 2006). Arra a következtetésre jutunk, hogy az átalakulás folyamata érzékeny a rövidtávon érvényesülő hatásokra, amely fluktuációkat okoz az átalakulás irányában és sebességében, mind a globális növekedés mind a globális hanyatlás időszakában. Azt is megmutatjuk, hogy a külső és belső adaptációs nyomás érzékenysége és következménye területileg eltérő sajátosságokat mutat.

**Tárgyszavak:** pártállami modell, rövid távú sokkok, rendszerátalakulás, globális válság, migráció, gazdaságpolitikai reakciók, prefektúrák

**JEL kódok:** F5, D78, R58, J08, 015, E24

## Köszönetnyilvánítás:

Itt szeretném megköszönni a 13 kínai városban történt terepkutatás kínai team tagjainak munkáját és segítségét, elsősorban Li Shi professzornak, aki biztosította a számomra azt a ritka lehetőséget, hogy csatlakozzam nagy migráns-kutatásához saját speciális, rendszerszemponitú megközelítéssel, biztosított a számomra kínai kutatási asszisztent és engedélyezte a SEBA (School of Economics and Business Administration) doktoranduszainak, hogy résztvegyenek a terepmunkában, interjúkat készítsenek és újságelemzést végezzenek. Hálás vagyok magyar kutatási asszisztensemnek, Gyuris Ferencnek is, aki immár több éve rendezti adatbázisomat,

táblákat és térképeket készít és konstruktívan vitatja meg velem az eredményeket. Ez a kutatás nem jöhetett volna létre az OTKA (2007-2010) anyagi támogatása nélkül.

## **INTRODUCTION**

China's deepening integration took place in an international environment of overall growth that only in late 2008 turned into global recession. We shall analyze the impact of this changing global dynamics on China's system transformation. The goal of this paper is to reflect on some concepts and theoretical statements of the IPS (Interactive Party-State) model (Csanádi, 2006) regarding the impact of external and internal adaptation pressures during the process of system transformation.

Our hypothesis was that overall growth and China's growing integration directly fuelled domestic economic growth and indirectly contributed to the acceleration of the transformation of its economic subfield while increasing party legitimacy. We suggested that inversely, overall recession directly fuels domestic economic decline that in the long-run may indirectly contribute to the preconditions of a political transformation. The analysis will show that initial hypothesis needs correction, since time-span factor has to be additionally considered.

By adding time-span dynamics we suggest that only long-term adaptation pressures and economic decline during economic transformation might support the initials of the transformation of the political sub-field, while short-term pressures incite reversible adaptations. We shall argue that short-term adaptation pressures both during global growth or global decline incite reactions that slow-down economic transformation, simultaneously stabilizing the political sub-sphere. In the following chapters first we shall provide some of the most important definitions of the model in order to shed light on our systemic approach. Next we shall first deal with the impact of short-term changes first during global growth on system transformation and second during global recession. The dynamics of transformation in periods of global growth and global decline is demonstrated using different means. Conclusions from the point of view of the model will follow.



## THEORETICAL BACKGROUND

We build on the Interactive Party-state (IPS) model to define the theoretical background of the dynamics of transformation. The IPS model is an analytical framework to compare the similarities and differences in the structure, operation and transformation of party-state systems and also different aggregation levels within one party-state.<sup>2</sup> We shall define some of the main concepts in this model that are indispensable to understand the approach:

- *Operation*: the process of self-reproduction of the system
- *Self-reproduction*: the process of resource extraction, resource attraction and resource allocation (distribution) in the system in the given distribution of power.
- *Distribution of power*: the distribution of the bargaining capacities (resource extracting, resource attracting and allocating capacities and resisting capacity of actors to intervention) within the party-state power network.
- *Party-state power network*: is formed by the dependency and interest promotion relationships between party, state and economic decision-makers during the decision-making process. Relationship is institutionalized through the power instruments of the party that interlink non-party and party hierarchies by infiltrating non-party institutional boundaries. These instruments influence the decision-making process in non-party spheres by reaching out to positional, activity, and organizational structures and individual decision-makers. While forming interlinking dependency lines, power instruments at the same time function as interest promotion channels besides that of those hierarchical dependency lines. Shortcuts in the decision-making process structurally integrate lower level entities in the higher levels of decision-making, both within and across hierarchies, and thereby provide selective interest promotion possibilities. Shortcuts, together with interlinking lines provide actors' unequal bargaining capacities. Characteristics of the network are the following (Figure 1):

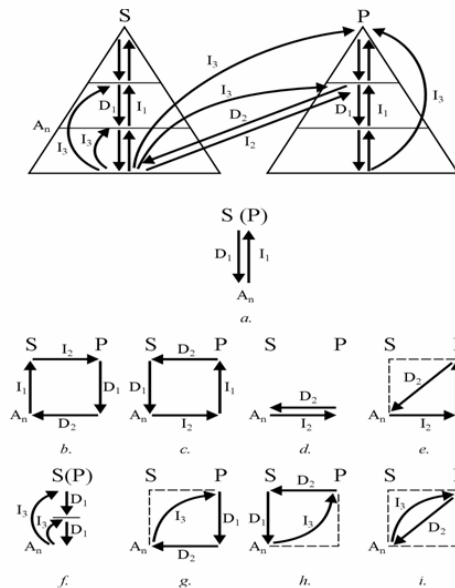
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<sup>2</sup> Systemic *self-similarities* described by the model allow for the comparison of party-states and their transformation in different time, space and levels of aggregation. Thus, due to systemic self-similarities different individual characteristics as geopolitical location, size, cultural, historical traditions, economic and social structure, level of development do not inhibit comparison.

Figure 1.

### Structural characteristics of party-state systems

- Closed channels
- Uni-directional but multi-threaded dependencies
- Direct connections of party and non-party fields and thus sensitivity to each others' decisions
- Atomized actors (weak horizontal connections)
- Multi-threaded interest promotion
- Structural inequalities in dependency, interest promotion and resisting capacity through interlinking lines (D2; I2) and
- Short-cuts/feedbacks (I3)
- Bargaining capacities and formal positions differ
- Different bargaining positions will provide the distribution of power of the structure



- *Structural background of the variations in the distribution of power:* Different bargaining positions will provide the distribution of power of the structure. Variations in power distribution depend on the level of centralization or decentralization of interlinking lines within the party hierarchy, their density, outreach and depth in the non-party hierarchy; the level of centralization or decentralization of extraction and allocation of resources within the state hierarchy; and the quantity and strength, density, the levels of outreach of actors with shortcuts of the decision-making process within or across hierarchies. These will together define the differences in the actors' resisting capacity to interventions and their different resource extracting, attracting and allocating capacities within the network.
- *Patterns of power distribution in the network:* Based on the characteristics of power distribution we may define patterns according to (1) the level of centralization or decentralization of interlinking lines on different levels of the party hierarchy; (2) the centralization or decentralization of resource extracting and allocating capacities along the different levels of the state hierarchy; (3) and the quantity and strength of short-cuts providing the extent of resisting capacity and resource attracting capacity within the network. Based upon the variations of the above three elements (interlinking lines, resources and short-cuts) three such patterns are defined: the self-exploiting, self-disintegrating and self-withdrawing patterns. (see Table 1)

- Internal (structural) constraints in self-reproduction:** Self-reproduction of different patterns meet hardening structural constraints with different frequency. In other words, frequency of meeting structural constraints is pattern-conforming. The more resisting capacity towards interventions and resource extraction, and the more capacity for resource attraction of actors within the network the earlier the network meets structural constraints that hardens the process of self-reproduction. In self-withdrawing pattern due to the expanded resisting capacity within the net, structural constraints are met the fastest among the three patterns and also the frequency of hardening reproduction constraints is the highest. The issue of changing the status quo or relying on external factors becomes the most critical here. Size, cultural and historical traditions, geopolitical location and the capacity to change status quo will determine the extent of the necessity of reliance on external domestic and international sources. Characteristics of the three patterns are shown in the following table.

*Table 1*

**Main patterns of power distribution and according instruments of resource extraction and distribution**

TRAITS	SELF-EXPLOITING (e.g. Romanian)	SELF-DISINTEGRATING (e.g. Hungarian)	SELF-WITHDRAWING ( e.g. Chinese)
<i>Distribution of power</i>	Centralized extraction and distribution, centralized interlinking threads, few feedbacks	Centralized extraction and redistribution, centralized (or decentralized) interlinking threads with strong economic feedbacks	Partially decentralized extraction and redistribution and either centralized or decentralized interlinking threads with economic feedbacks
<i>Relationship between units and sub-units</i>	Faint attracting and resisting capacity	Selectively strong attracting and resisting capacity	Selectively strong attracting and resisting capacity
<i>Constraints of self-reproduction</i>	Rarely hard	Occasionally hard	Frequently hard
<i>Mode of resource acquisition</i>	Forced resource redeployment	Resource mobilizing (decentralizing) reforms	Resource mobilizing and resource creating reforms

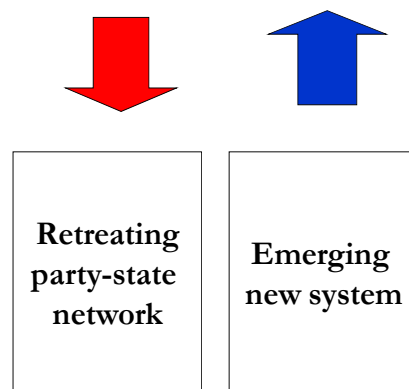
- External constrains in self-reproduction:** Definition of “external” in our approach means both the domestic sphere outside the network and international conditions. Both of the external constraints may be soft and may be hard in relationship to the network, exerting growing competitive pressure (hardening) or relaxing competitive pressure and conditions of resource acquisition (softening) for the reproduction of the network.

- *External and internal constraints in self-reproduction*: Dynamics within and outside the network are interdependent. Internally, party-state systems according to the model are very flexible: they translate (from-fit) external impact to the given distribution of power. This process will prevail until constraints exerted by the external environment (e.g. loans, FDI, competitive pressures, export demand, import conditions) and reproduction constraints defined by internal power distribution are soft for the self-reproduction. If structural constraints in self-reproduction are met and resources from higher aggregation levels flow poorly, reproduction constraints within the pattern become hard and exposure to external factors arise. In these cases the importance of external constraints exerted from outside the net emerges. If resources from outside the net fall short, or competitive pressure is high, external impact will exert harder constraints on the self-reproduction of the network.
  
- *External constraints and pattern sensitivity*: Patterns demonstrate different degrees of sensitivity and adaptability to the environment in strong interaction with internal power conditions: the softer the reproduction constraint, the more flexible from inside, the less need for adaptation to environmental impacts. Internal flexibility is given by the extent of resisting and attracting capacities within the network. The less resisting capacity, the more resources may be exploited from within the net and thus, the less the need to adapt to the environment. The less flexible from inside, the more resisting and attracting capacity of actors within the net, the more exposed to external pressures, and the higher is the need for adaptation. Thus, self-withdrawing pattern represented by China will be structurally the most exposed and thus, the most adaptive while self-exploiting (all party-states in the 1950s or Romania by the end of the 1980s or North Korea to the present) the less adaptive externally. The impact of external factors and response to those depends primarily on the pattern of power and strategies come second.
  
- *Time-span variations and time sequence of hardening external and internal constraints leading to transformation*: external and internal constraints may be alternatively hard, or simultaneously hard or soft. These periods may last for short- or long-term, while reactions and consequences are pattern-conforming. When hardening reproduction (structural) constraints from within and hardening economic constraints exerted from outside the network occur simultaneously and for long-term, adaptive drives intensify, pattern-conforming measures accelerate and pattern-conforming transformation process will take place.

- **Transformation process:** We define transformation in party-states by the relative and absolute withdrawal of party-state network from different (economic, social, political) sub-fields of the system (see Figure 2) on the one hand, and the development of an alternative field (competitive or not) outside the party-state network on the other. Relative withdrawal means the faster emergence and expansion of the field outside the network compared to the speed of development of the given sub-field embraced by the network (be they economic or political); absolute withdrawal means the emptying of the network, disruption of the network, the weakening and the withdrawing of network functions in other words, the contraction (retreat) of the network.

*Figure 2.*

### **Transformation of party-state systems (Csanádi, 2009)**

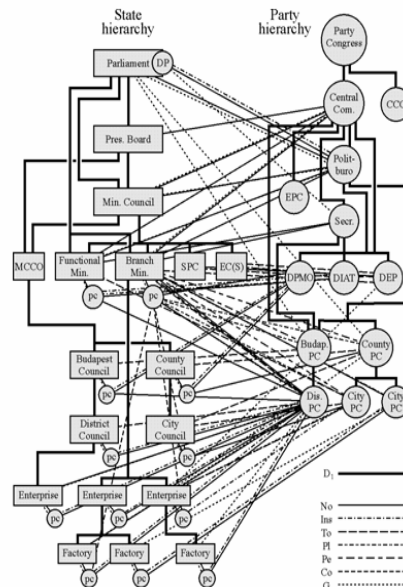


**Patterns of power and the process of transformation:** Transformation is structure--conforming: the variations in the sequence and speed of transformation of different subfields is strongly related to the distribution of power within the network (Csanadi, 2006). Transformation's structural specifics will be caused by the following factors: (1) differences *among* patterns (2) the disparities of power distribution *within* patterns. (3) the interplay among intertwined patterns (similar or disparate) of different levels of *aggregation*(4) The result of the combination of the actual importance of different composing elements of the process of retreat and emergence.. (5) Also spatial distribution and different clusters of the above interacting variations will influence the transformation. All of the above four characteristics of pattern-*conforming* path-dependency and their spatial distribution will influence where, how and with what sequence, speed, conditions and outcome will pattern-dependent transformation occur.

Figure 3.

### Consequences of structure-conforming transformation on sequence speed and conditions

- Transformation is pattern-dependent
  - different sequence
  - different speed
  - different conditions
    - the political conditions of economic transformation
    - the economic conditions of political transformation



The interplay of the above structure-conforming characteristics with local individual traits will jointly influence the concrete outcome of the process of transformation, the adapting capacity of actors during the process, the level of cumulated uncertainties during transformation and thereby the speed of transformation at different aggregation levels and that of different units of one level of aggregation. Next, we shall detail only the consequences of the first one, the differences among patterns on the transformation.

- Variations of pattern-conforming transformation: 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 not only determines the speed of transformation of the different subfields, but also the different economic conditions under which economic or political transformation is taking place and the different political conditions under which economic or political transformation is taking place.<sup>3</sup>

<sup>3</sup> Csanádi, *Self-consuming Evolutions...*, 2006

- Pattern-conforming differences of transformation:** The figures below demonstrate the pattern-conforming differences of the sequence, speed and conditions of transformation in the case of self-exploiting, self-disintegrating and self-withdrawing patterns.

Figure 4.

**System transformation in the case of the self-exploiting pattern**

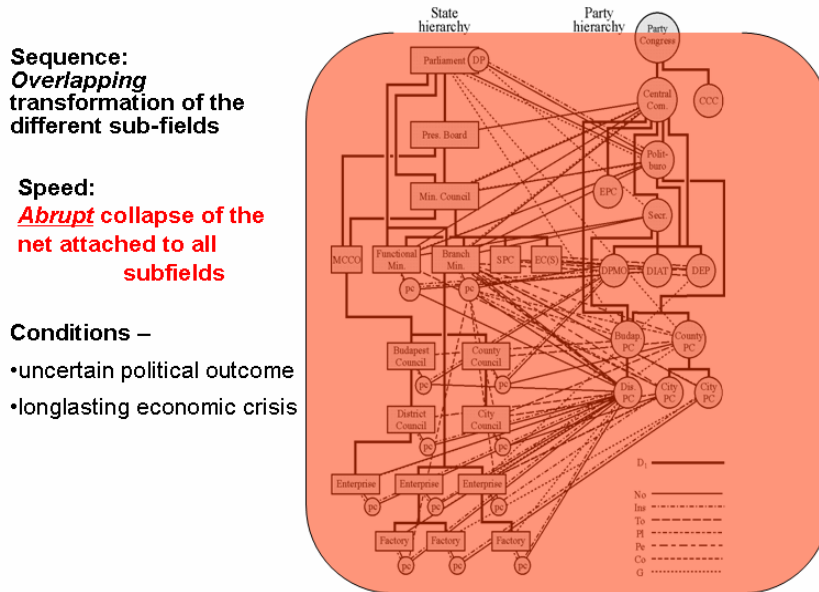


Figure 5.

**System transformation in the case of the self-disintegrating pattern**

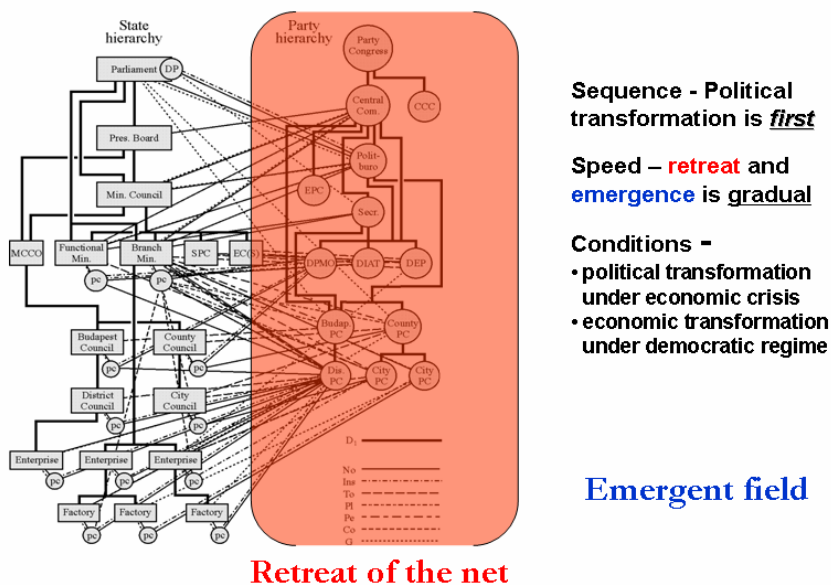
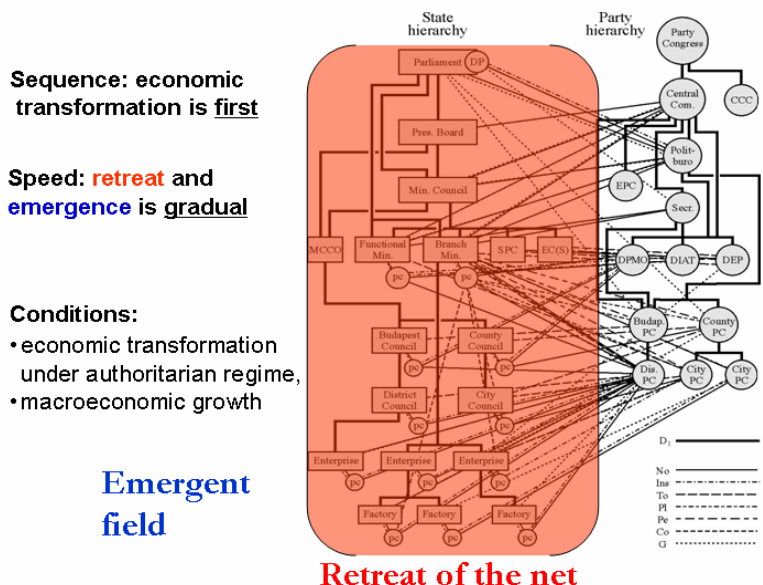


Figure 6.

### System transformation in the case of the self-withdrawing pattern



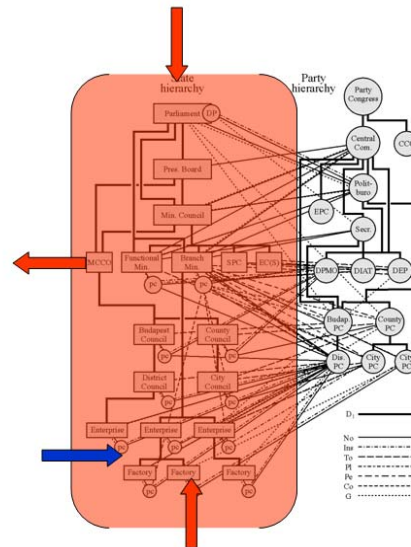
We shall analyze in more detail the Chinese case, where first economic transformation (retreat and emergence) is occurring in a context of macroeconomic growth under an authoritarian political regime. The retreat occurs due to long-term structural (internal) constraint of self-reproduction, and thus, to frequent hardening of reproduction constraint of the network. This is what forces decision-makers to leap out of the net. This process occurred either by opening up to external world and/or increasing the field outside the net domestically. The aim was the acquisition of further resources to maintain the reproduction of the network however this process increased gradually and long-term the competitive pressure on the economic subfield covered by the network. In theoretical terms it commenced by decentralization of the dependency lines, followed by the withdrawal, and the cut-off of the lines of the net or the emptying and weakening the network. In practice it meant the decentralization of decisions over allocations, rationalization of management that brought about the abolishment of the institutional background of compulsory planning (withdrawal). It also included the close-down of state-owned and collective enterprises or their privatization (cut off), and the stripping of state values through the transfer of competitive capital, product, organization and manpower to the emerging market field (emptying) and the infiltration of alternative (private) capital, behavior and interest (capitalists) and organizations into the net (weakening). (Figure 7)



Figure 7.

### The factors of the retreat of the network

- Decentralizing* the net
- Emptying* of the net
- Weakening* of the net
- Withdrawal of the net*
- Cut-off* the net

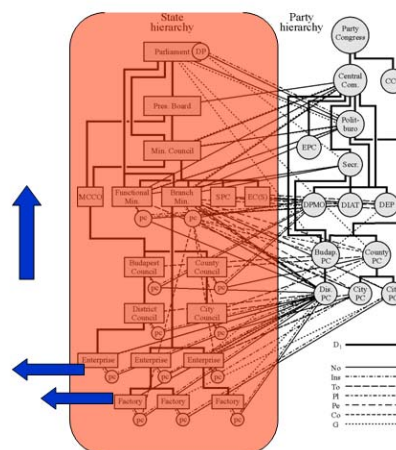


The emerging and expanding field outside the party-state context also occurred in different dimensions. It meant increasing decentralization of decision-making over production factors both in agriculture and industry that provided larger room for maneuver for economic units. The development and expansion of the emergent market in China 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, as well as the transferred values from the party-state sphere and the developing market-friendly institutional background (Figure 8).

Figure 8.

### The factors of the emerging competitive field

- Dual-track pricing,
- Allowing the **increase of the number** of economic units and capital **outside the net**
- **Privatized** enterprises
- **Transferred** (stripped off) convertible capacity
- The increase of the **overlapping** segment



■ *The time-span of constraints during transformation:* Hardening or softening constraints that incite different adaptation pressures may last for short- and long-term, also during transformation. These pressures will spur different adaptatig behavior according to transforming patterns and actual external dynamics. On the one hand, short-term adaptation pressures might provoke transitory or definite restructurings of the net and the slow-down of the process of transformation. On the other hand, long-term adaptation pressures during transformation might bring about the acceleration of the transformation of the whole system enhancing the conditions of the transformation of further sub-fields. Characteristics of this speed-up will be pattern-dependent.

Next we shall concentrate on short-term impacts during global growth and global decline in the approach of the IPS model in the case of China's self-withdrawing pattern, where economic transformation came first. We use statistical data for 1999-2004 as a sample of the period of global growth, while interviews and newspapers are going to be analyzed for the period of global recession between late 2008 and end of 2009.

### **SHORT-TERM SENSITIVITY OF TRANSFORMATION AND ITS SPATIAL DISPARITIES DURING GLOBAL GROWTH**

Rapid economic growth in China was driven by increasing integration into the world economy since 1979, accompanied by structural economic and institutional changes as a result of reforms and integration. Figure 9. and Figure 10. reflect the extraordinary growth pace demonstrated by several economic indicators: GDP, export, import, investment in fixed assets, FDI and foreign exchange reserves:

Figure 9.

**Tendency of economic indicators during global growth and global decline**

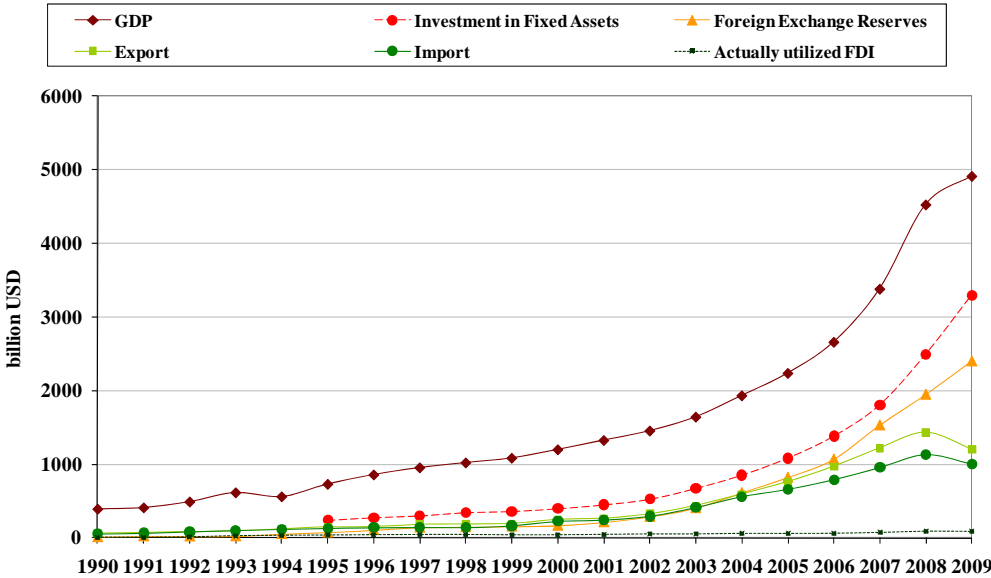
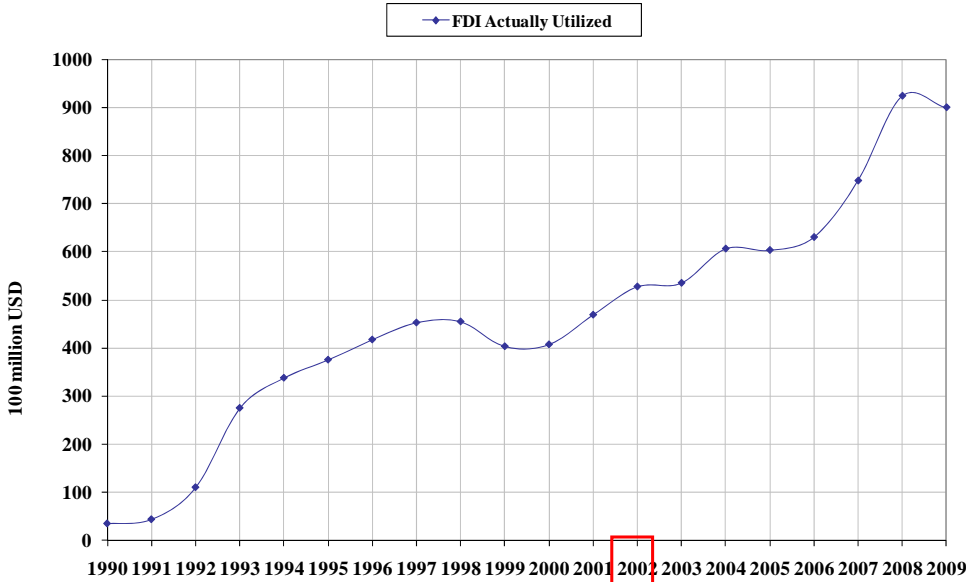


Figure 10.

**Tendency of FDI during global growth and global decline**



Owing to steadily rising FDI inflow the development of eastern regions skyrocketed and spilled over to overall domestic production and began to expand towards neighboring provinces (Gyuris, 2008, p. 108). Extraordinary pace of infrastructure building and urbanization accompanied the development. Growing exports, industry and services absorbed about 140 million migrant workers in 2008 (Chan, 2010) from poor rural regions. Investment climate boosted, production steadily increased and maintained high consumer and business confidence (Angresano, 2009, p. 339).

Improvements are reflected also in social indicators. For example, the standard of living of the whole population increased enormously, over 250 million people were lifted out from absolute poverty due to rural reforms and industrial development (Angresano, 2005, p. 471). The high rate of adult illiteracy has been decreasing in giant steps from 56,6 in 1964 to 8.4 in 2007. Average life expectancy grew from 67.8 in 1982 to 72.5 in 2006<sup>4</sup> 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 (UNDP, 2008, p. 140).

Rapid growth however also brought to the fore social disparities<sup>5</sup> 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 respectively<sup>6</sup>. Gap was widening between migrants and non-migrant peasants, migrants and urban dwellers, women incomes compared to men (Sicular, Ximing, Gustafsson and Li Sh, 2007; Azizur, 2008). 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 2006. Spatial differences in GDP per capita at provincial level were almost tenfold in 2006 (UNDP, 2008, p. 140). Original gap in the national level GDP between the western and

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<sup>5</sup> 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/ec.html](http://www.exxun.com/China/ec.html) (2008)

<sup>6</sup> "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](http://news.stonebtb.com/Global_Trade/15641-China-s-Exports-Probably-Declined-Most-in-a-Decade-in-December.shtml)

central regions in 1978 has further widened 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 spatially unbalanced migration and local social tensions (Demurger, Li Shi, Fournier, Zhong, 2006). 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 (Cai, 2007; Cai, 2008), forced land-transfers and confiscations, by local rent-seeking authorities (Zhang, 2005).

Growing tensions during this period however, were nested in a dynamically developing macroeconomic context and general improvement of social conditions. These circumstances allowed economic policy makers to smoothen 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 to labor market 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. Next we shall detail the impact of global and national dynamics on the transformation on different aggregation levels within China.

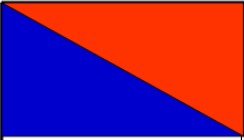
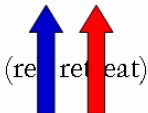
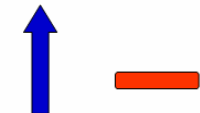
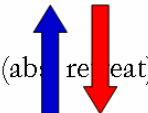
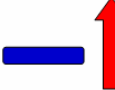


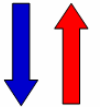

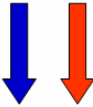
## **QUANTIFICATION OF THE DYNAMICS OF TRANSFORMATION**

Structural changes contributed to the transformation of the economic sub-field: to the gradual retreat of party-state network and to the emergence and expansion of the market relationships. In order to quantify the relationship between the dynamics of the retreating and emerging fields, an operationalized tool was introduced: the concept of the "dynamics of transformation". This concept refers to the growth, stagnation and decline of the two fields (network and competitive) relative to each other.

Based on the combination of growth, stagnation and decline of the two fields, the different types of transformation dynamics are classified in Table 2. The table strikes the variations of the simultaneous and relative change of direction of the party-state context and that of the market field.<sup>7</sup> Red collors in the table show the dynamics (stagnation, growth and decline) of the network field, while blue collors show the dynamics (stagnation, growth and decline) of the emergent competitive field.

Table 2.

**Calculation of the different types of transformation dynamics<sup>8</sup>**

	Growth	Stagnation	Decline
Growth			
Stagnation			
Decline			

Note: changes of per capita GOV of the Net or of the Emergent field:

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

**Decline:** - 10% or below

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, intersected by China’s entrance in the WTO in 2001. We have analyzed the different types of transformation dynamics, the dominant ones among these types, their disparities in space and shifts in time.

<sup>7</sup> 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. These are the following: when both fields grow either in equal pace, or one of them grows faster; when both fields decline either in equal pace, or one of them declines faster; when only one of the fields grows while the other declines; when only one stagnates and the other declines or grows; when both stagnate. Real variations of these dynamics were in practice nine.

<sup>8</sup> 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.

It is impossible to quantify this two-fold process, especially the retreating network without simplifying its complexity. Moreover, not all components may be quantified. And, what is in principle quantifiable in general, for example, privatizations and close-downs, in practice it is not available statistically in China. 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.<sup>9</sup> Thus, we got

**FF + Dom + Op = E** (Foreign Funded enterprises + Domestic private enterprises + Other private enterprises = as the market field) and

**SOE + TVE + On = N** (State Owned Enterprises + Township and Village Enterprises + Other enterprises in the network = as the Network field).

## **LONGER-TERM TENDENCIES WITH SHORT-TERM SHIFTS ON DIFFERENT LEVEL AGGREGATIONS AND SPACE**

### OVERALL TENDENCIES AT DIFFERENT AGGREGATION LEVELS

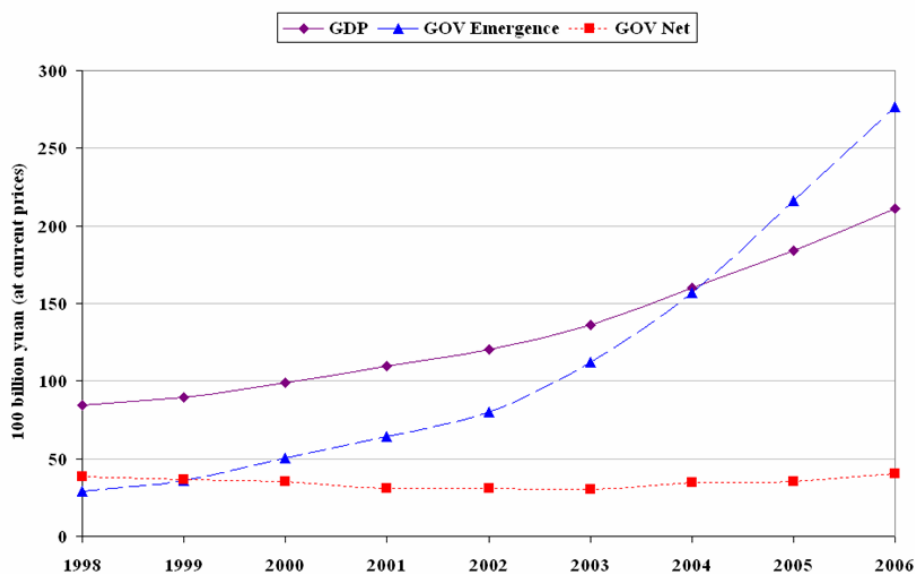
We have measured the dynamics of the two processes by the only available indicator both at national, provincial and prefecture level that existed for both emerging and network fields: the gross industrial output value (GOV). Figure 11. shows the trends of GDP development and the simplified characteristics of economic transformation based on GOV between 1998 and 2006.

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<sup>9</sup> 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. The division of enterprises into these two fields is presumably rough, and might contain some mistakes, due to the large scope of enterprise types and their hazy statistical definition. Joint ventures were classified as private, shareholding companies as pertaining to the network field. However, those ill-defined though evidently may distort results, do not form a statistically determining group in number or output.

Figure 11.

**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)**



Source: China Data Center MU

Dynamics on Figure 11. reflects overall macroeconomic GDP growth which, according to the chart, is supposedly overwhelmingly owed to the exuberant growth pace of the emerging 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. 9. and 10. on exports and imports, investments in fixed assets, foreign exchange reserves and actually utilized FDI).

Figure 11. reveals that emerging market field shows a sharper acceleration in time: it gathers momentum starting from 2002, strengthening the previous trend, similarly to the pace of the indicators mentioned above on Fig. 9-10. Meanwhile, from 2002 on, the trend in the output of the units pertaining to the party-state context slightly changes: also begins to increase, switching from so-far decline.<sup>10</sup> Overall, the figure suggests a stable tendency of transformation.

Table 3. and Map 1. 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 depicted in Table 2., between 1999 and 2005. Statistical results point

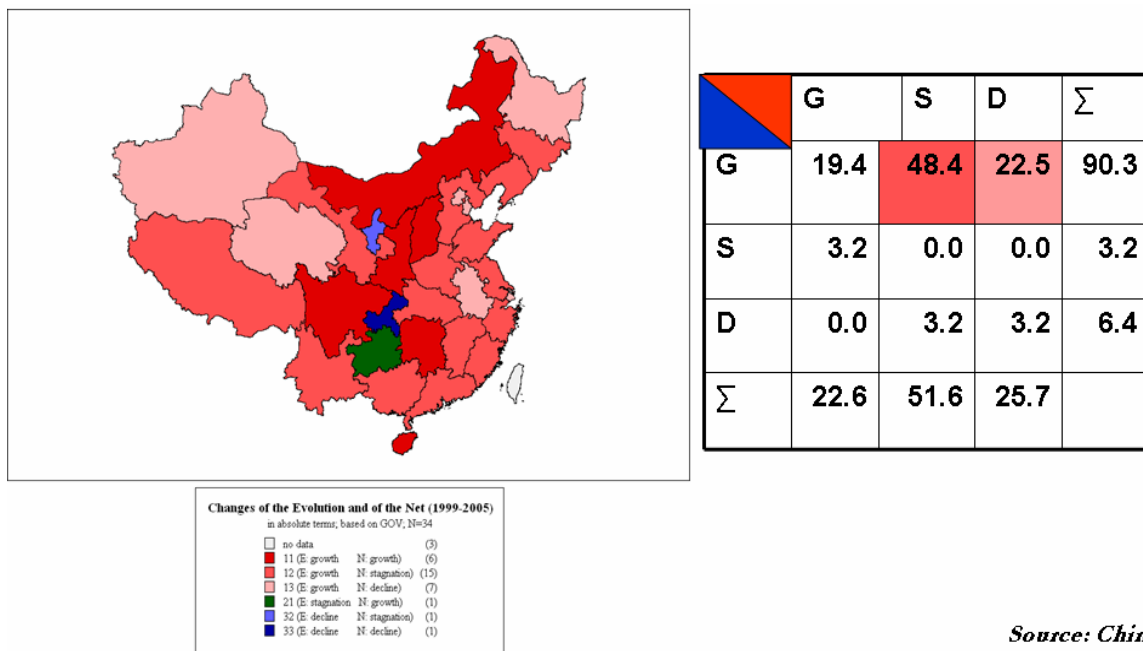
<sup>10</sup> According to our interpretation, this was the starting impact of China's deeper integration into the world economy through entering the WTO in 2001 and consecutive laws and rules increasing the room for maneuver also for economic units within the network field (Kun Chin Lin's oral input, 2008) contributing to spill-over effects from the market field.



to the fact that in 90 percent of the cases the output of economic units of the emergent field was growing, while in 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, apparently tending towards absolute retreat as the second largest frequency.

*Table 3. Map 1*

**Provincial level transformation dynamics and its spatial configuration between 1999 and 2005 (Compiled from the data of University of Michigan, All China Data Center, Provincial Statistics)**



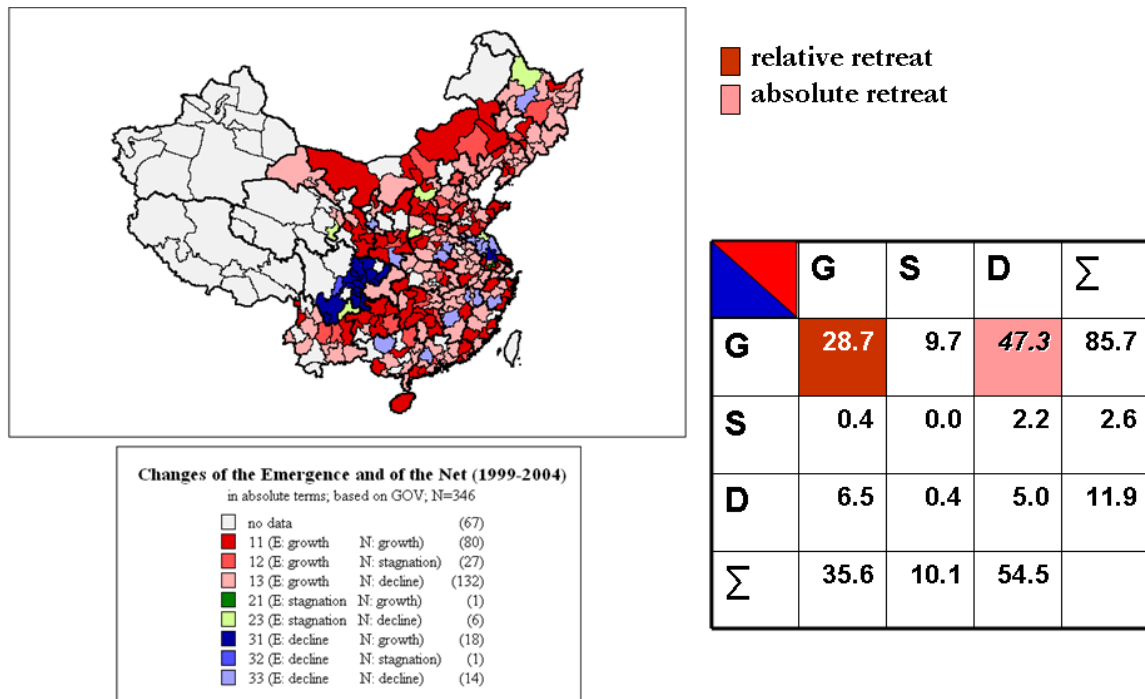
*Source: China Data Center MU*

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. However, spatial distribution of the different types of dynamics does not follow conventional regional divisions and neither trends of gradually declining developmental level from east to west or north to south. 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 that extend from some central to western provinces, while absolute retreat of the network is scattered among all larger regional divisions.

Table 4. showing data at prefecture level strikes a more differentiated picture on the types of dynamics. The frequency of absolute retreat of the network is dominant at prefecture level. The second most frequent is the relative retreat of the net. Prefecture level shows a much larger variance in occurring types than at provincial level. At this aggregation level the growth of the output of units belonging to the emergent field occurs in almost all prefectures. Meanwhile, the decline in the output of the economic units pertaining to the network field occurs in more than half of the prefectures.

Table 4. and Map 2.

**Distribution of the types of transformation dynamics and its spatial distribution at prefecture level between 1999 and 2004 (Compiled from the data of University of Michigan, All China Data Center, City Statistics)**



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 measurements<sup>11</sup> at prefecture level, there is no correlation among the types of transformation

<sup>11</sup> 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

dynamics and absolute economic indicators reflecting level of development.<sup>12</sup> The neglect of this fact might misguide economic policy interventions to decrease tensions based on conventional developmental factors and larger regional divisions.

#### SHORT-TERM SHIFTS AT DIFFERENT AGGREGATIONS AND SPACE

Using the above defined terms and types of transformation dynamics (Table 2) on national level we may detect two of its types within the given period (Figure 11.): until 2002, we can detect the absolute retreat of the network with growing emergent field outside the network and declining party-state field. After 2002 the relationship changes: the absolute retreat shifts to relative retreat of the network, this latter meaning the expansion of both fields but the higher speed of growth of those within the emerging market field compared to a slower growth of the party-state field.<sup>13</sup> In our view the sudden escalation of economic performance was in strong relation with the act of entering the WTO in 2001 and consecutive laws and rules increasing the room for maneuver also for economic units within the network field contributing to spill-over effects from the market field. The tables and maps that will follow next will reveal the disparities of the types of the dynamics of transformation in space and in time at different levels of aggregation.

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 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.

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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. Eta squared ( $\eta^2$ ) Eta squared is the proportion of the total variance that is attributed to an effect. It is calculated as the ratio of the effect variance ( $SS_{\text{effect}}$ ) to the total variance ( $SS_{\text{total}}$ ) --  $\eta^2 = SS_{\text{effect}} / SS_{\text{total}}$  The effect variance is the variance of the means of the dependent variable calculated in the groups defined by the independent (effect) variable.

<sup>12</sup> Csanádi, Spatial disparities of system ...2009

<sup>13</sup> 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.

Table 5.

**Shifting dominant transformation dynamics at provincial level  
within 1999 and 2005 (Compiled from the data of University  
of Michigan, All China Data Center, City Statistics)**

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
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

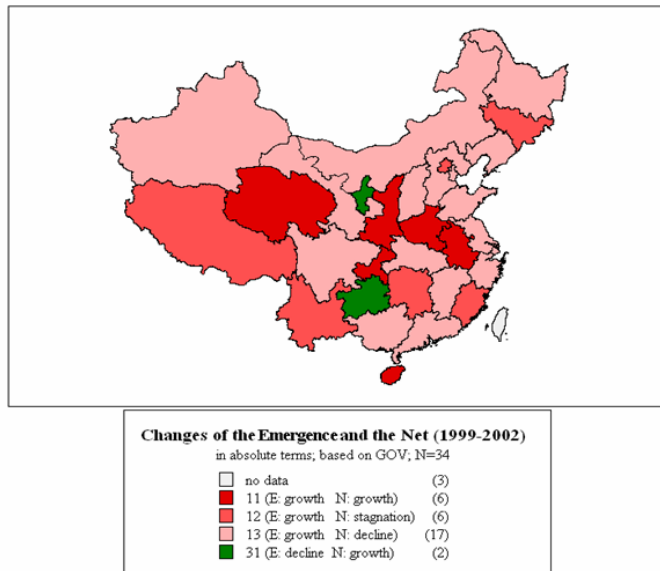
Note: Rows contain the dynamics of the emergent field, columns that of the network.

Let us compare 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, to 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 of the network 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.<sup>14</sup> Between 1999 and 2005, during the two consecutive periods within it, nearly all types of transformation dynamics occurred along the coastal provinces or attached to those, though the majority is steadily either relative or absolute retreat of the network.

<sup>14</sup> 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.

Map 3a.

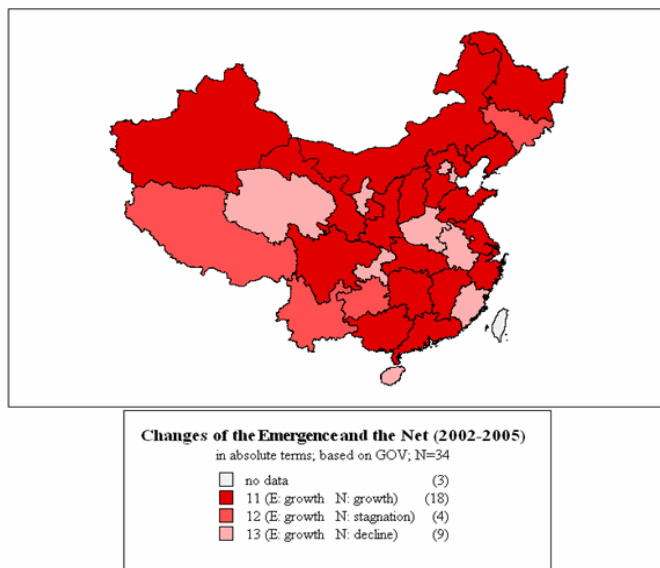
**Spatial configuration of different types of transformation dynamics between 1999 and 2002 (Compiled from the data of University of Michigan, All China Data Center, Provincial Statistics)**



Source: China  
Data Center MU

Map 3b.

**Spatial configuration of different types of transformation dynamics between 2002 and 2005 (Compiled from the data of University of Michigan, All China Data Center, Provincial Statistics)**



Source: China  
Data Center MU

Similar dominance and shift of dominant dynamics in shorter time is revealed at prefecture level on Table 6 and Map 4a and Map 4b.: 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 6.

**Shifting dominant dynamics at prefecture level within 1999 and 2004  
(Compiled from the data of University of Michigan, All China Data Center, City Statistics)**

	G	S	D	$\Sigma$
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
$\Sigma$	21.1	18.0	61.0	

Different types of transformation dynamics during 1999 and 2002

	G	S	D	$\Sigma$
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
$\Sigma$	51.0	19.6	29.4	

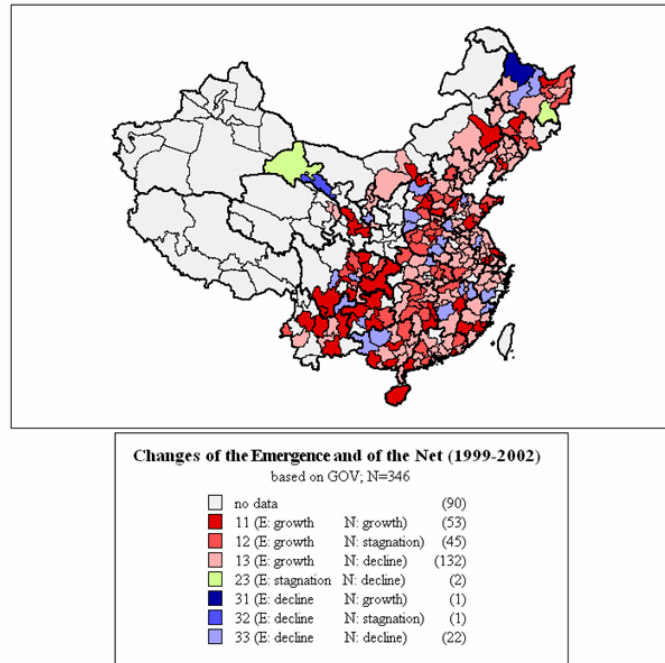
Different types of transformation dynamics during 2002 and 2004

Source: China Data Center MU

Map 4a. and 4b. show 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 do not match those at 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.

Map 4a.

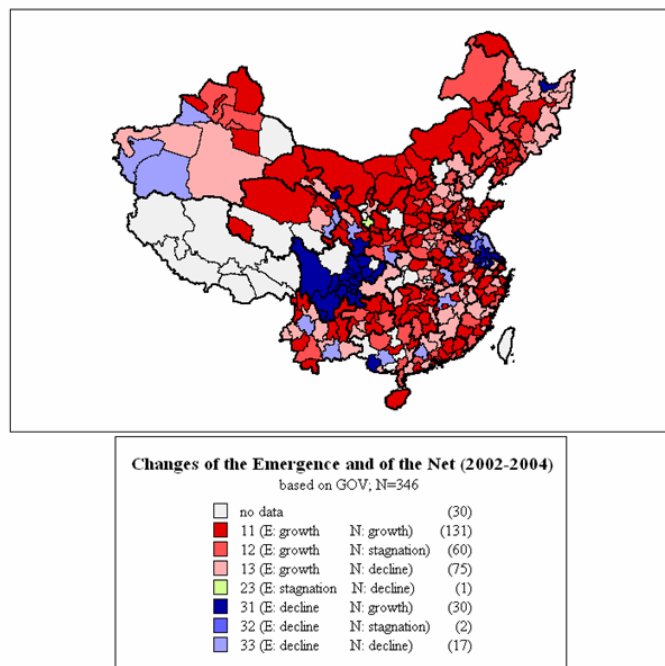
**Different types of transformation dynamics and their spatial dispersion during the period of 1999 and 2002 (Compiled from the data of University of Michigan, All China Data Center, City Statistics)**



Source: China Data Center MU

Map 4b.

**Different types of transformation dynamics and their spatial dispersion during the period of 2002 and 2004 (Compiled from the data of University of Michigan, All China Data Center, City Statistics)**

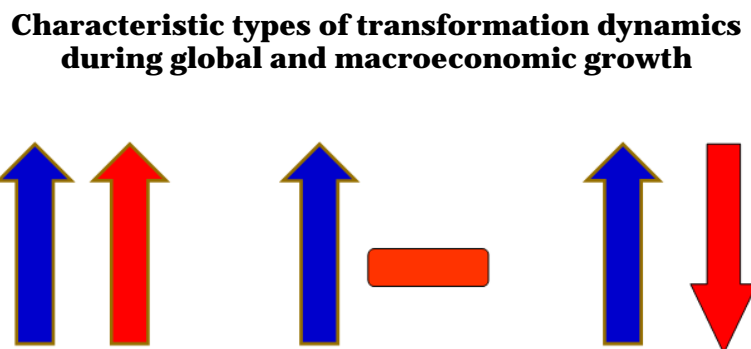


Source: China Data Center MU

Major conclusions of the so-far analysis are the following: spatial configurations at provincial and prefecture levels 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<sup>15</sup>.

There are shifts of dominant dynamics in time showing short-term sensitivity to external shocks (WTO) suddenly softening external constraints, spill-over effect on the network, shifting from absolute to relative retreat and thereby slowing down the transformation of the economic sub-field. 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 (Figure 12).

*Figure 12.*



**GLOBAL DOWNTURN AND SHIFTING TRANSFORMATION DYNAMICS:  
A PROJECTION**

Starting from late 2008, however, global downturn began to hit the country’s domestic economies. Different dimensions of the national economic development reflected on Figure 9. and Figure 10. (such as GDP, export, import, investments in fixed assets, foreign exchange reserves and FDI) were shifting to slower pace, if not stagnation and decline. New economic and social tensions arose from this new dynamics differentiated in space, adding up to the unsolved former ones, connected to growth. These new tensions were even harder to be dealt with in the context of global downturn and its direct social and economic consequences in a

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<sup>15</sup> Since output of the network field and emergent field is only a simplified representation of the transformation process, it might well occur that transformation (retreat of the network and expansion of the emergent field) takes place despite the growth of the output among units pertaining to the network. similarly, transformation may stagnate or reverse despite the decline of the output of economic units pertaining to the network field.

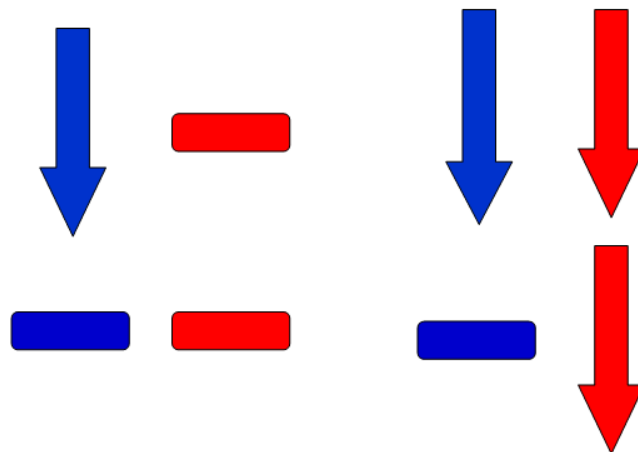


deeply integrated economic system. In sum, external and internal constraints of self-reproduction of the system have simultaneously hardened suggesting the chances for the propagating adaptation pressures also in the political sub-field.

While, as we have stressed, no correlation was found between types of transformation dynamics and indicators of economic level, quite strong and significant correlation was 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, in the number of employees and the changes in total retail sales of consumer goods. Partly owing to this correlation, we have projected 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 strongly connected to export activities is overwhelmingly declining while the party-state field connected to state interventions is growing, stagnating or declining (Figure 13.).

*Figure 13.*

**Shifts towards new types of transformation dynamics due to global crisis**



**LONGER TERM TENDENCIES AND ADAPTATION PRESSURES**

Our further hypothesis was 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. 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 only indirectly support the *supposed* consequences of economic slow-down or decline.

Theoretically, the projection relies on the IPS model's ideas on growing adaptation efforts under increasing external and internal pressures. According to the model, intensity of actions within party-state network increases when extractable and distributable resources decline, economic constraints of self-reproduction of the network harden and thus, cohesion loosens.. Stronger adaptation efforts develop when both hardening economic constraints from outside the network and reproduction constraints within the network are coinciding for longer term. Such coinciding constraints pre-empted and accompanied political transformation of party-states in Eastern Europe and Soviet Union in 1989 and early 1990s. As we have defined at the beginning of this paper, 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 structure of Chinese party-state is no exemption to these system characteristics. China fits this theoretical concept well, since it is a party-state system, and it is also in the process of system transformation, attaining first its economic subfield. External dynamics has a strong impact on China's economic dynamics and economic transformation due to China's deep integration into the global economy, owing to the substantial role of foreign trade. In 2007, the share of foreign trade was 66.8, within that, export accounted for 37 percent of the GDP (Cai F. et al., 2010, p.36, 38). Consequently, taking the above and also the export's multiplying effect on the GDP growth through consumption and investment channels, (Cai et al, 2010, p. 38) adaptation pressures to external and internal constraints are evident. Moreover, in the case of the specifics of the Chinese model we know that resources to distribute within the network strongly depend on the extractable resources and dynamism of the domestic field outside the network where export is overwhelming and which is also connected with uncountable formal and informal ties to the political sub-sphere. Therefore, adaptation pressures due to longer term internal and external constraints might emerge also in China.

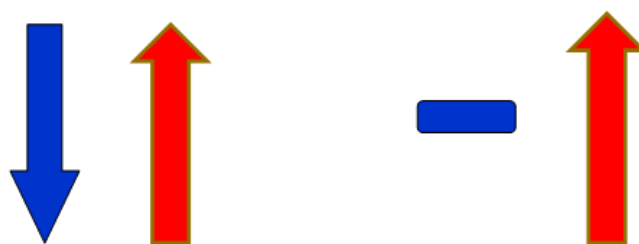
The consequences of changing dominant dynamics in China resemble those external and internal dynamic preconditions. Transformation dynamics may take new directions: the long-term slow-down of economic transformation may bring about the withdrawal of the net in the political subfield. Self-similarities 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 in China. Further, the structural background of different distributions of power described by the model allow for the study of the differences of those in space and different levels in China.

Indirect empirical examples support the model's predictions at national and lower level aggregations for the total or partial retreat of the network from the political sub-field<sup>16</sup> as a result of long-term external and internal adaptation pressures. Such are the examples of the political transformation of the former party-state systems and among those, the cases of Romania and Hungary (Csanádi, 2006). But there are also indirect empirical examples within China's recent development history. Semi-free elections were carried out at township and county levels in 2000, within prefectures that had the same type of transformation dynamics as we presupposed to become dominant in the near future nation-wide: when the market field declines while the field of the network still increases, stagnates or also declines. Moreover, though semi-free elections emerged from 1995 onwards, the dramatic increase in the number semi-free elections occurred in 2000, when a shift in dominant dynamics may be detected at affected prefectures towards decline of both fields. The type of dynamics from which the shift occurred (relative withdrawal) corresponds to the nationwide dominant dynamics that existed until 2006-7. The type of dynamics to which it shifted before semi-free elections corresponds to those potentially predicted ones on national level as a result of the impact of global crisis.

However, also uncertainties of these chances should be enumerated in the case of long-term projection. First of all, the differences in the sequence of transformation compared to other transformed party-states: the system transformation in China is characterized by economic, rather than political transformation first, and there is no historical experience of the economic conditions of political transformation second in party-states. What is also unknown is the degree of sensitivity of the power structure to economic downturn on the short run. Uncertainties also emerge concerning the length of the crisis and its connotations for the reversibility of evolving conditions for political transformation as adaptation pressures ease. As an alternative option to the effect of adaptation pressures we have forecasted the temporary slow-down of economic transformation due to increased state intervention and selective resource distribution that might accelerate the expansion of the party-state network rather than that of the competitive field (Figure 14.).

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<sup>16</sup> Direct elections occurred in about 30 per cent of the villages, and semi-free elections at six per cent of townships and some at county level by 2002 (Lai, 2008), and there were partial direct elections in the trade union at grass-root levels (Howell, 2008).

**Suggested dominant dynamics as the impact of global crisis on the short-run**
**INITIAL RISKS OF DESTABILIZATION AS THE IMPACT OF THE CRISIS UNDERLYING  
LONG-TERM PROJECTION**

Initial developments underlied theoretical postulates of the preconditions for political transformation. Financial and economic crisis that hit the whole world had a strong impact in China. During the initials of the crisis in late 2008, 67,000 small and medium sized enterprises, crucial actors in China's economy<sup>17</sup> ceased production, by January 2009 already 100,000, 60% of those at coastal provinces (Liu, 2009, p. 13). Orders on national level dropped about 20-30 percent but there were locations where drop was 50 or even 100 percent (Liu, 2009, p. 13, referring to Chen, 2009), putting tens of millions out of non-agricultural employment. The double digit growth of GDP in 2007 dropped to 6.8 percent by the last quarter of 2008, and 6.1 in the first quarter of 2009, the worst performance of the PRC since a decade (Liu, 2009, p. 2). The export growth rate which was 23.5 % in 2007 dropped to -2.8 percent in December 2008 (Liu, 2009, p. 11). Initial contemporary reports and later professional forecasts predicted a longer and deeper overall impact. Consequently, a substantially more dramatic picture was predicted regarding the chances of export and growth recovery, the absorption capacity of the labor market and the increase of social tensions and political instability (Demick, 2008, Martin, 2008, Chan, A., 2009, Walsh, 2009).<sup>18</sup>

<sup>17</sup> In 2008, SMEs accounted for 58.5% of the PRC's gross domestic product (GDP), 74.7% of industrial new value added, 58.9% of sales, 46.2% of tax revenue, and 62.3% of the total export values. In addition, 65% of patent technologies, 75% of technological innovation, and 82% of new products were developed by SMEs. Meanwhile, in 2008 the number of SMEs in the PRC reached over 42 million (around 38 million were macro-small private enterprises). SMEs accounted for 99% of all business enterprises in the PRC, employing 75% of urban dwellers and over 75% of the laborers transferred from rural areas. In 2007, there were 27.59 million micro-small private enterprises, 5.51 million small and medium private enterprises, and only 2,950 large private enterprises (Liu, 2009, pp. 1-2).

<sup>18</sup> Nonetheless, a press release issued jointly by the Ministries of Commerce and Finance and the All-China Federation of Trade Unions in June 2009 described the unemployment situation in China as "dire" and forecast that total unemployment (of urban and migrant workers) would reach 40 million in 2009 (Jinnian quanguo, 2009).(Chan, 2010, p. 251).

How did the huge mass of migrant workers react to the impact and the measures? In early 2008, Frijters, Liu, and Meng argued based on the first results of the RUMiCI<sup>19</sup> survey in 2007 that the low level of unrest stems from the high level of realistically optimistic expectations fed by the high level of actual growth. They had a very important remark, stressing that this will last as long as growth persists. (Frijters et al. 2009, p. 27). But this survey was carried out before the crisis and among migrants who had a job, even with drastically lower wages, longer working hours, minimal social security coverage, facing difficulties in accessing public services, allowed in lower level works, with outrageous living and working conditions (Li Shi, 2008).<sup>20</sup>

Migration as an influencing factor does fit well to the above systemic approach. The immense size of floating population, estimated to one third of the total labor force (Chan, 2010)<sup>21</sup> is politically, socially and economically decisive. Moreover, migration is strongly sensitive to the dynamics of external impacts since it is estimated that manufacturing, that absorbs about one third of migrant workers around 80 percent are in exporting industries.

Map 5. demonstrates that migration is also spatially sensitive, since coastal area that produces the overwhelming majority of exports and the highest is the ratio of export in the GDP ( from 50 to 90 percent) is the recipient of about two thirds of all migrant workers (see Attachment 1. in Csanádi, 2010).

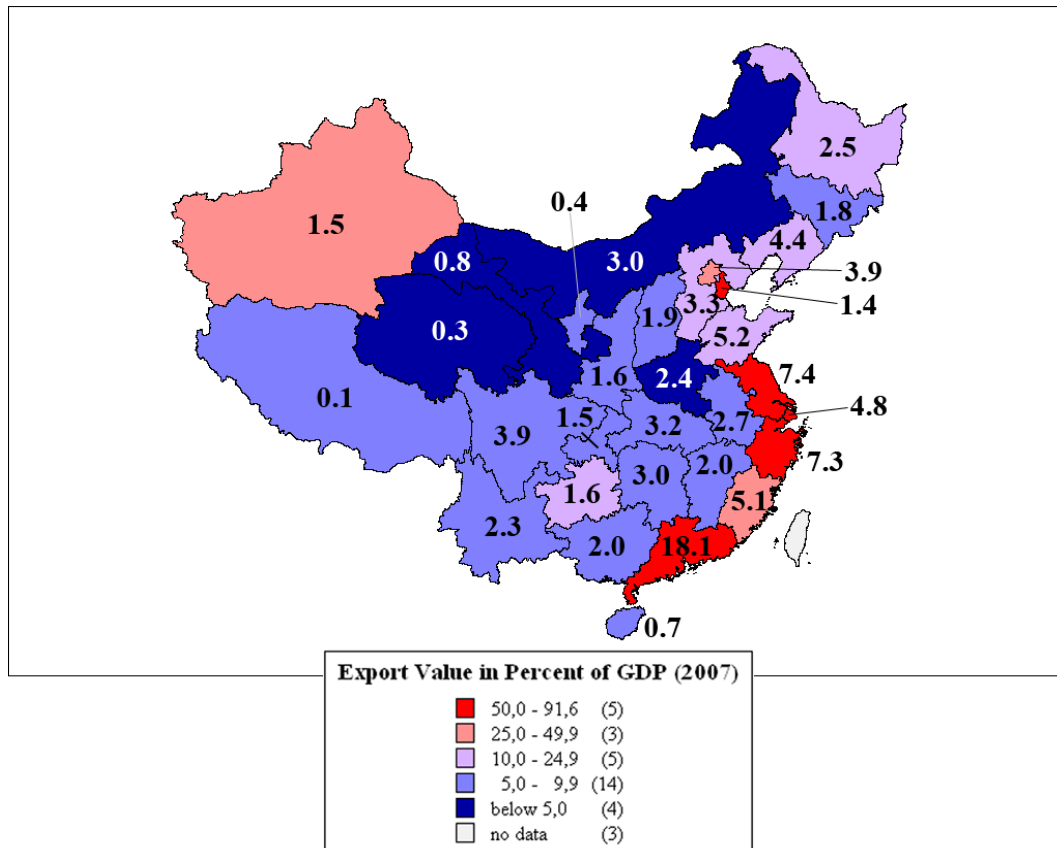
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<sup>19</sup> Rural-to-Urban Migration in China and Indonesia (RUMiCI), empirical survey carried out since 2007 in collaboration with Australian National University and different Chinese partners.

<sup>20</sup> Li Shi described migrant workers' living and working conditions based on Chinese Household Income Project Survey (CHIPs) of 2002 and the Rural Migration Survey of the National Bureau of Statistics (RMS-NBS) of 2004. the following way: Li Shi (2008) description on the social conditions of the 90 million rural migrants in 2002: 5 percent of rural migrant workers were registered in the pension scheme, around 2 percent had unemployment insurance, 3 percent medical insurance, more than 10 percent were sharing public housing. About 80 percent worked 7 days a week, 70 percent worked between 9-13 hours a day, meanwhile, their average wage was 58 percent of urban workers, 79 percent had no signed labor contract with employers (2004), about 50 percent lived in a space 8-5 square meters and below 5 that, 45 percent with no bathroom and toilet. 87% of migrants' children aged under 7 were not in kindergarten, about 16% of the 7-8 million migrant children at school age (7-14 years old) were not in school, migrant parents were paying higher school fees for 67% of the migrant children (extracted from Li Shi's ppt based on the referred study).

<sup>21</sup> About the large deviations behind this average number at coastal cities climbing to 70-80 percent of local employment see Chan, 2010, p. 8.

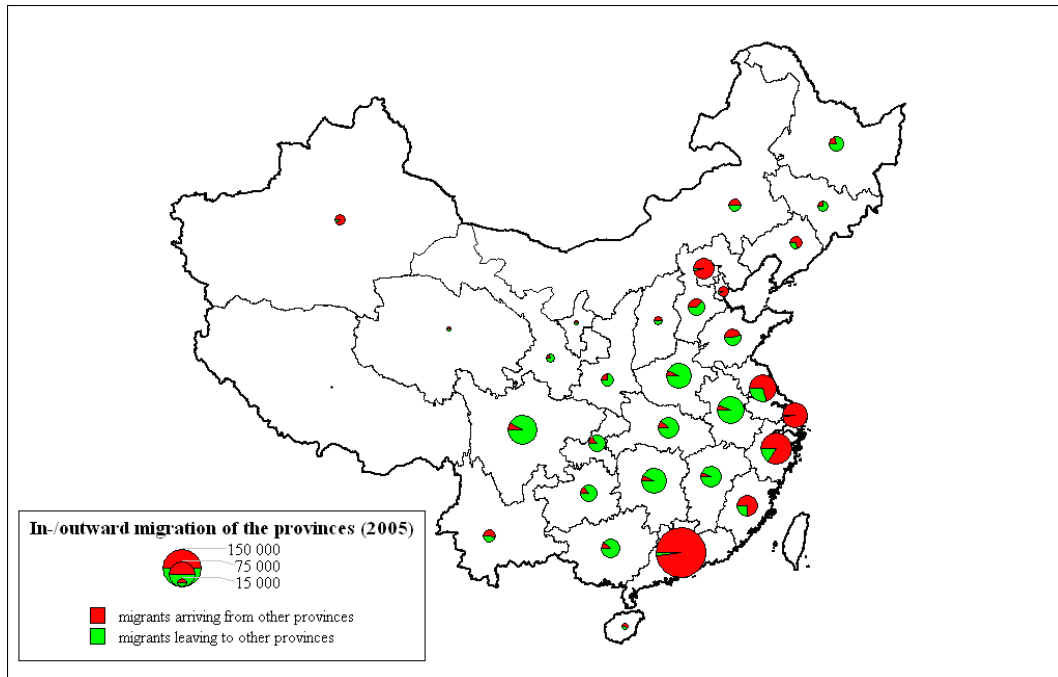
**Differences in export/GDP (2007) and distribution of migrants (2005) according to provinces (all inter and intraprovincial migrant workers on national level =100)**



Map 6/a. shows the exceptional role that coastal area plays as destination for this huge floating labor force: the ratio of migrants that entered these provinces is dominantly higher than that of those who leave to other places from coastal provinces. Migrants entering these provinces are over 80 percent of all migrants moving across provinces. From the opposite point of view, Map 6/a reflects the fact that regional sensitivity does not emerge only at destinations of migration but also at sources of outward migration. Central and western regions are sources of over 80 percent of all outward migration (See Attachment 1 in Csanádi, 2010).

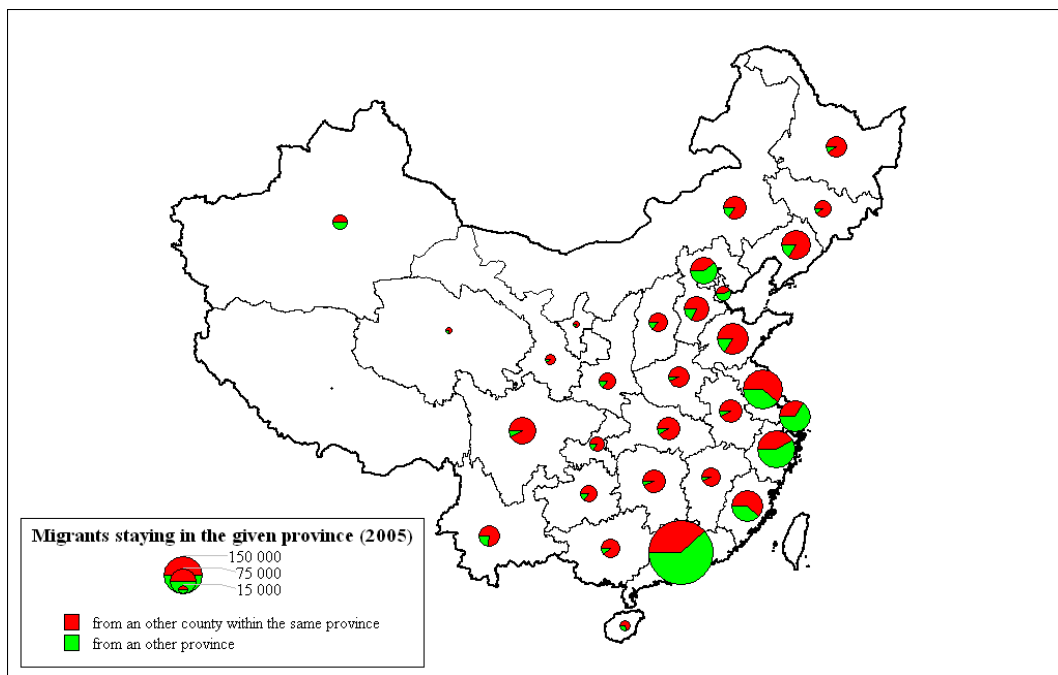
Map 6/a.

**Distribution of migrant workers by provinces according to the ratio of those leaving the province for other provinces and those coming to the province from other provinces (outward+inward migrants = 100)**



Map 6/b.

**Distribution of migrant workers by provinces according to the ratio of those coming from other provinces and those moving within the province (inter + intraprovincial migrants = 100)**



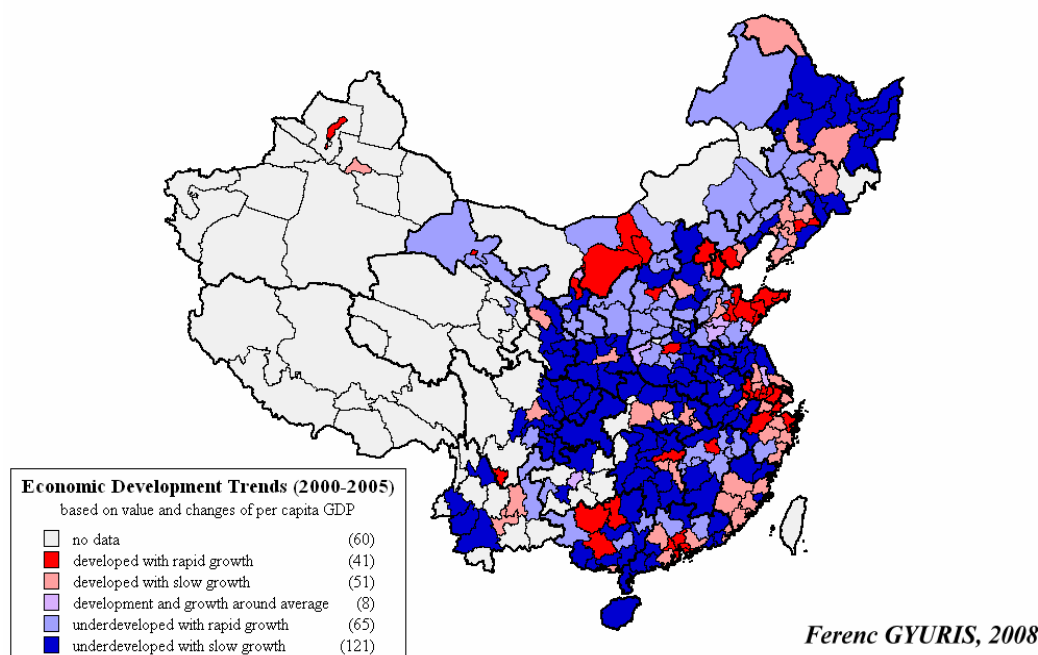
We can see on Map 6/b. that coastal provinces are in special position as the share of migrants that move in from other provinces is larger than that of those who move within those given provinces. Except for Ningxia, at all other places local migrants moving within their own province are in majority compared to those who come from other provinces.

Thus, institutional reactions to crisis and their differences are important both at destinations of migration due to their adaptation efforts to external pressure, and at sources of outmigration due to their adaptation constraints to internal consequences of external pressures. It would be ideal to have similar provincial level up-to date data to examine the dynamics of migrant flow during and after the crisis period but we have to wait for those to be published for several years. Still, we are fortunate to have a national level estimation from Chan about the impact of the crisis on migration. According to his explanative table (Table 2, Chan, 2010, p. 521) there were 140 million migrants in late 2008. On January 2009, half of the migrants (70 million) returned home, the other half remained at the destination locations (supposed having kept their jobs). From those 70 million who returned home in January, 56 million went back to the cities in February and March 2009, but 11 million of those did not find jobs. From the 14 million who remain and seeked job at home only 2 million could re-enter work and 12 millions remained jobless. All together 23 million workers were jobless between 2009 February and March, estimated to 16 percent of unemployment among migrants compared to around 4 % of urban unemployment.

Map 7. indirectly suggests the possibility of evolving concentrated social and political tensions in case of a sudden economic backlash. This map depicts the level and dynamics of GDP/capita. Those in red relate on the high level and developing per capita GDP, those in blue represent the low level and declining per capita GDP (Gyuris, 2008). High level and developing cities (mostly capitals of the given provinces) are surrounded by low level declining regions. If one supposed that urbanization and industrialization, commerce and service and exports are behind the high and growing level of GDP per capita we can also suppose that most of migrant workers are concentrated in the prefectures with red color within one province. Concentrated mass occurrence of migrants offers also the chances for organizing themselves in case production suffers external shocks and mass layoffs occur. Tensions may be aggravated by the fact that migrants become „locked in” those cities, since chances are low for finding alternative jobs in surrounding low level and declining cities.



**Concentration of migrant workers and potential for mass grievances at highly urbanized and high level and developing GDP per capita**



In the second half of 2008 protests were on the order of the day.<sup>22</sup> Scholarly papers, contemporary articles and official reports reflect on increased mass grievances at destination cities due to massive factory closures without paying the workers in full or at all.<sup>23</sup> Interviews relate on increased tensions and grievances at destination cities due to dramatically soaring numbers of wage arrears of suddenly folding enterprises. On the other hand, at sources of migration returned migrants frequently found themselves dispossessed of their lands due to corruption, urbanization and infrastructure campaigns connected to the stimulus package (Chan, 2010, p. 20).

Frustration ended up in mass protests and grievances and increase in criminality. There are references of dramatic expansion in the number of officially reported mass incidents over 2008 and its massive increase in the first quarter of 2009. In 2008, officials counted 127,000 mass incidents - compared to 87,000 incidents in 2005. Of these cases, 467 involved storming

<sup>22</sup> Among the surveyed 15 cities by RUMiCI project on average, about 13 per cent (or 1.4 million) of the migrants employed were affected by the post-economic downturn shutdowns. Among the 15 cities, Dongguan has been hit the worst, with about 34 per cent of its migrant employment was affected. The other cities badly affected are Wuxi and Ningbo, which has about 20 per cent of the migrant employment affected by shutdowns. (Kong et al., 2009).

<sup>23</sup> In Dongguan, which was devastated by the slump, angry workers staged numerous mass protests demanding full payment of wages and layoff compensation. The international media succeeded in filming and reporting rather unusual scenes of tense confrontations and scuffles with police (Foreman, 2008). In nearby Shenzhen, for which information is also available, the number of labor disputes involving arbitration also surged precipitously to record levels in 2008 (Qiao, 2009). Chan, 2010, p. 12.

local government departments, 615 attacks on police and judiciary authorities and 110 attacks on government buildings and vehicles. The first quarter results of 2009 reveals a near redoubling of that figure, as officials recorded 58,000 mass incidents - which would amount to a yearly rate of 232,000 (Walsh, 2009). Not only occasional mass protests develop in more frequency and larger scope and more violent. Workers are seeking protection and institutional channels of forwarding dissatisfaction also outside the network: horizontal institutionalization of interests emerge.<sup>24</sup> 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 303 prominent people with further rising number of signers to 8,100 people inside and outside of China by early 2009.<sup>25</sup>

Indirectly, all these numbers and events suggest a very high possible external and internal adaptation pressure on the power structure on national level, even if tilted down to local governments that could create the initials of a political transformation. Next we shall see the factors and impact of our failed projection. We shall reflect on the reasons of prevailing political stability despite sudden large unemployment, and substantial economic, social and political impact on the party-state system.

#### SHORT-TERM SENSITIVITY AND ITS SPATIAL DISPARITIES DURING GLOBAL DECLINE

The basis of long-term projections soon vanished since the drastic period and direct impact of the global crisis in China was short-lived: in general it lasted from the fourth quarter of 2008 to the first quarter of 2009. Latest estimates of the World Bank (Figure 15/a, Figure 15/b) show how drastic but short was the period of the external and internal impact and how sharp the start of the recovery at different dimensions of the national economy. They also suggest the dramatic but short-term duration of external and internal pressures for adaptation.

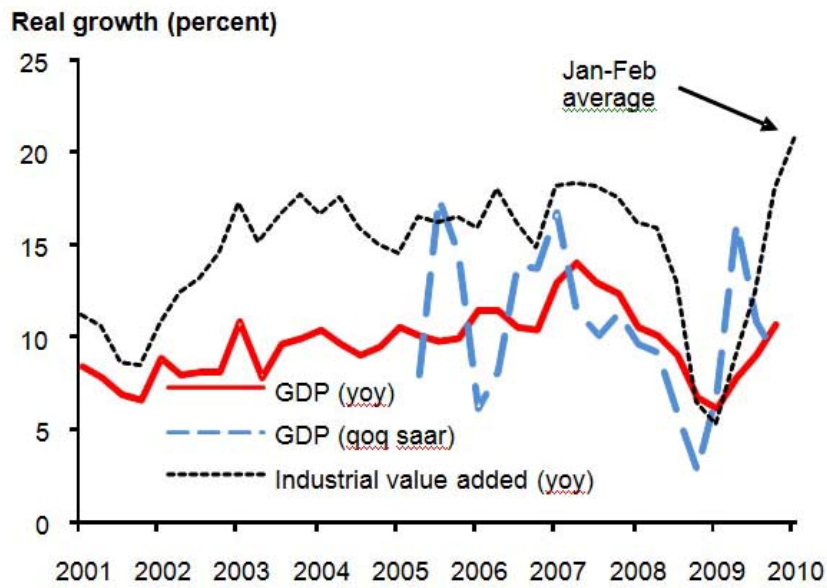
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<sup>24</sup> In Hunan province demobilized and retired soldiers formed a 100,000 strong "anti-corruption brigade" of laid off workers, poor peasants and lower class intellectuals. „Rural Reform and revolt in China” by Heiko Khoo *In Defense of Marxism*, Tuesday, 21 October 2008 <http://www.google.hu/search?hl=hu&q=%E2%80%9ERural+Reform+and+revolt+in+China%E2%80%9D+&meta=>

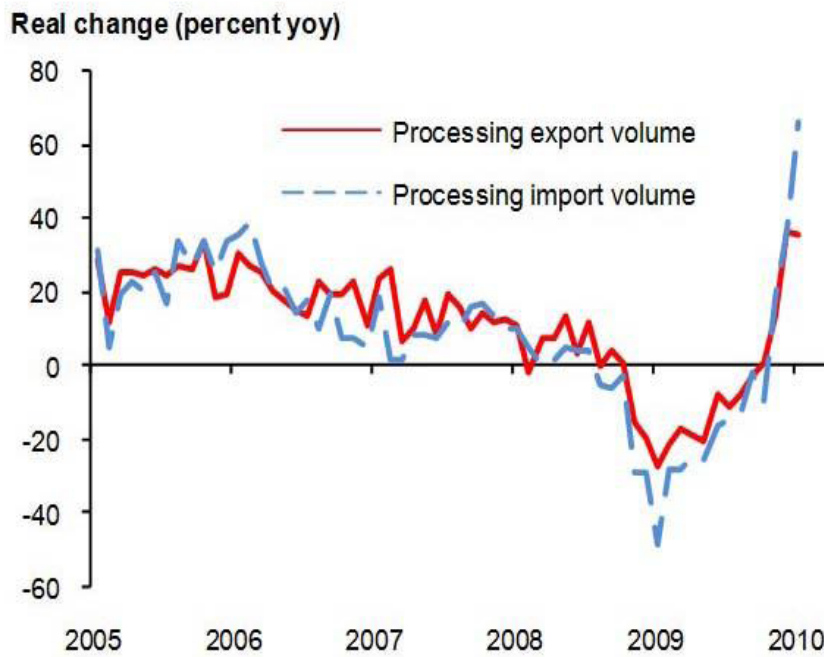
<sup>25</sup>“Charter 08” [http://en.wikipedia.org/wiki/Charter\\_08](http://en.wikipedia.org/wiki/Charter_08) ; “In China, anger rises ... Demick, 2008

Figure 15/a and Figure 15/b

**The depth and shortness of the impact of global crisis and initials of recovery**



Source: CEIC, World Bank staff estimates.



Source: CEIC, World Bank staff estimates.

Economic downturn and emerging political tensions incited adaptation pressures that caused prompt official reactions. Pressures to channel social grievances to avoid direct confrontations grew, forecasting increasing mass protests in the coming decades.<sup>26</sup> Chinese experts mentioned that 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.<sup>27</sup> In order to limit the impact of workers' protests new instructions on police behavior have been issued. The idea was to prevent small scale protests from escalating into massive riots or becoming generalized.<sup>28</sup> Efforts to institutionalize and control migrant mass also revived.<sup>29</sup>

What could be the supposed reasons why dramatically increased mass incidents did not destabilize the system politically? In his recent book Cai Yongshun defines several trade-off criteria for mass protests to unfold. He also describes the conditions of success or failure of protest in achieving goals using either third parties for support, or pressuring local government reacting according to their trade-off with tolerance, concession or repression, activating in the process different level governments and party authorities (Cai Y., 2010, pp. 3-20). It would be an irresponsible venture to intrude in his deeply and extensively researched field. But let me add some remarks from systemic approach and also try to nest his thoughts into the actual crisis and potential adaptation pressures on the power structure.

First of all, since critical disruptive period was short, long-term institutional adaptation did not evolve as a pressuring factor in general. By June 2009, unemployment among migrant workers dropped from 16.4 to 3 percent (Chan, 2010, p. 2) that radically decreased potential pressure on authorities. Even if migrants would have had time to organize, it would have been structurally hard since 78 percent of migrants worked fragmented, at small and medium private enterprises (Liu, 2009, p. 2, and RUMiCI 2007). Bankruptcies attained overwhelmingly small and medium sized workplaces, thus there were no sudden mass layoffs owing to the closure of large enterprises. Sudden mass lay-off was inhibited also by the strict and punitive regulation of authorities to anticipated compulsory report in case of more than ten workers to be fired simultaneously, and the formation of compensation funds at several

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<sup>26</sup> (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

<sup>27</sup> "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>

<sup>28</sup> „Negative economic indicators ..” Martin, 2008

<sup>29</sup> Government reinforced the process to incorporate peasant migrants into the official trade unions. 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.

local authorities. Overwhelming majority of migrants work without labor contract (Li S., 2008), that could have provided ground for legal procedure. Potential legal representation and government aid by source city authorities suffers the handicaps of distance to initiate a legal procedure between source and destination cities, the phase delay of acknowledgement of the problem, lack of documents and supportive facts from the defendant side and frequently vanished offender.

Migrants are weakly unionized and thus organized, their knowledge about trade union is low, nor they see themselves as part of the Chinese working class but as peasants (Howell, 2008 851, 853) few institutional network support their settling down or sense of belonging there even if stayed for years in one province. Workplace turnover of migrants is high (changing job places frequently), no real roots or attachment develops to one place. They are also weakly represented institutionally in the trade-union (Khoo, 2009).

Mass organization is also structurally hindered at the source cities, though networks of migrants are overwhelmingly based on kinship.<sup>30</sup> This is because returning migrants are scattered in numbers in different widespread small villages. In the RUMiCI project, without having response from all 8403 migrants, those who responded lived in 920 towns and 3200 villages in 2007. Moreover, complaints, even if mass demonstrations have a political connotation, are directed against local authorities' behavior and are not in general addressed to the party legitimacy itself (Cai Y., 2008; 2010). During the crisis period in sample cities, most problems arose due to wage arrears, pay delays and sudden enterprise close-downs.

The prompt implementation of conscious central political decisions with strong economic and labor force connotations played crucial role in easing potential tensions. After Spring Festival returning unemployed migrants soon found jobs also at alternative destinations to coastal cities, closer to their home-town. Increased labor demand in those places was overwhelmingly the consequence of the implementation 4 trillion Yuan stimulus package in November 2008. Stimulus package main priorities are social and economic infrastructure projects at central and western regions, financed by central and local authorities, attracting and absorbing millions of migrant workers.<sup>31</sup> We suppose that besides development goals of central and western regions the package also has a result of diverting workers from so-far migration routes. This is because interestingly enough, except for migrant mutually demanded low level migrant labor, spatial, ownership, size and sectoral focus and orientation of the Stimulus Package looks to work opposite to the spatial focus, ownership, size sectoral focus

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<sup>30</sup> This is indirectly suggested by Li Shi's data that show that 57% of migrant workers left their villages to find job having been encouraged by personal migrant connections: relatives, friends, village neighbors (Li Shi, 2008, p. 11)

<sup>29</sup> On the options regarding the optimal use of labor intensive investments for enhancing labor intensive works to absorb rural-to urban migrants see (Cai et al, 2010)

and orientation of the impact of the global crisis. It lays priority on the central and western provinces rather than coastal, large state owned enterprises rather than overwhelmingly privately owned small and medium sized enterprises (SMEs), on domestic rather than foreign owned enterprises, on infrastructure rather than manufacturing, on domestic consumption rather than export (Table 7).

*Table 7.*

**Mismatch of the focus of the stimulus plan and the impact of the crisis**

<b>Mismatch</b>	<b>Crisis direct impact</b>	<b>Stimulus plan direct impact</b>
<b>In location</b>	Coastal	Central and western
<b>Priority sectors</b>	Manufacture	Infrastructural
<b>Trade orientation</b>	Export	Domestic
<b>Participant ownership</b>	Private	State owned
<b>Enterprize size</b>	SME	Large
<b>Affiliation</b>	Foreign	Domestic

Also accidental factors contributed to ease tensions during the critical period at destination cities, notably the partial overlap of the national holiday in January-February 2009. Spring Festival allowed employers to send workers home either month earlier than the event begun while suspending operation. Other accidental tragic event was the devastating earthquake on May 12, 2008 in Sichuan, homeland for millions of migrants that was followed by a massive rebuilding campaign to date. Labor force demand for rebuilding the area absorbed large quantity of returning migrants, „compensating” potential grievances. Conciously increased central political strictness might have had demonstration effects through the deployment of military in severe minority actions, as it had also through the increased physical, information and communication constrains of dissidents, decreasing chances for political disequilibrium. In April export orders began to pure in, resurrecting labor demand though still at worse conditions than before the crisis (Chan, 2010). Job market is already in demand, meanwhile inflow to original destinations is slowing down according to interviews, due to the source cities’

agricultural policy, incentives for production transfer, incentives for individual business, chain of small loan institutions, infrastructure building drives, lower living expenses that increases trade-offs for migrants to remain closer to hometowns. The later the start of the recovery time, the larger might have been the loss of chances to re-employ migrants who have found alternative workplaces at earlier recovering sites and industries or coped with the trade-off of local incentives.

## TIME-SPAN IMPACT ON INITIAL SIGNS: SHORT-TERM ADAPTATIONS AT PREFECTURE LEVEL

In this chapter we shall provide our results on the spatial characteristics of government strategies during the researched period: their common and differing traits. The purpose of this chapter is to examine this short period of downturn directly connected to the global crisis<sup>32</sup> based on the above systemic approach of transformation at prefecture level through a small complementary field research. Our aim was to reveal institutional reactions to crisis from late 2008 to late 2009. We have examined the common and disparate characteristics of institutional adaptation at prefecture level at cities of spatially different locations, either characteristically sources of outmigration or destinations of immigration. We have also tried to detect their common or different sensitivity and reactions to short-term adaptation pressures caused by the crisis. For that aim we have analyzed their behavior splitting the examined periods into before, during and after the crisis. The paper uses interviews in 13 prefectures<sup>33</sup> with representatives of the Ministry of Labor (see interviewees' functions and positions in

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<sup>32</sup> This time we shall not deal with the reasons of prior FDI flee causing many thousands of factory closures and relocation in 2007 and early 2008 connected to the introduction of Labor Law and central and local measures to compensate overheated economic growth (Wong, 2008, pp. 2-3; Chan, 2010, p. 12; Meng et al. 2009, p 215; Meng et al. 2010, p. 2).

<sup>33</sup> Questions focused on the impact of the crisis, the possible preparation to it, the main sectors the impact emerged and the differences in sensitivity and behavior according to sector, size, and ownership of enterprises during the critical period. The sensitivity, fate, and behavior of locally employed migrants and non-migrants towards the crisis. The potential for mass grievances related to the level of concentration, level of organization of migrants, the extent of mass lay-offs and the sudden and mass disappearance of foreign or domestic private ventures employing migrants without their compensation. The chances for legal forms of collective interest representation, or for individual legal procedures with administrative assistance. On the other hand, questions were formulated on the tensions emerging at source cities as a result of the impact on destination cities with the return of migrants en masse. The kind of actions taken as a reaction and the difference of these actions compared to pre-crisis period and if was there any interest to know about neighboring impacts and iterate about their actions. I also tried to reveal the collaborating partners in these actions within and outside the prefecture, the role of different level party apparatus during the critical period, the collaboration with neighboring provinces and with origin and destination cities with each other in controlling migration and emerging tensions.

Attachment 6 of Csanádi, 2010) and newspaper analysis of 16 prefectures<sup>34</sup> from mid 2008 to the end of 2009 complemented by available relevant statistical data.

Advantages of the used methods raised a unique chance to highlight the concrete economic policy background of migrant move during the crisis, the locally emerging tensions, the local motivations and local adaptation efforts to emerging tensions. It gave the chance to point to the fields of sensitivity in adaptation, the concrete measures, differences in strategies of decision-makers before, during and after the crisis, the differences in behavior at source and destination cities, the motivations for collaboration and thereby the propagation of information and behavior.

However, data-set, newspapers and interviews carried substantial handicaps as research materials. Statistical data are partially outdated, since last migration census is of 2005. Moreover, at the time of writing the paper only results of the 2007 RUMiCI data were available, consequently, the analysis of migrant flow as a reaction to crisis was as to the present impossible. Concerning newspaper analysis we had to cope with the fact that we are transmitting hard data of coding results based on soft material, depending on individual selection of news and their judgement. We also had to acknowledge that published news were not necessarily overlapping real activities in any form. Moreover, since the number of interviews was few, the number and position of respondents varied, thus, comparativity was low. Advantages and handicaps however, both served as experiences for putting new research questions and helped the formulation methods of a more complex project on this field.

Our research covers that short period from the last quarter of 2008 to March 2009 and adds some month before and after it, based on interviews and news-paper information. This way we hope to shed some light on the fields, means and periods of sensitivity to adaptation pressures through differences in reactions before, during and after the critical period. Thus, we deal with three phases: (a) the period before the crisis from July to September 2008, (b) than the deep crisis period from October 2008 to March 2009, and (c) the first part of the recovery period from April 2009 to the end of the same year.

We are going to analyze the characteristics of actions and common traits and their differences between source and destination cities of outmigration. Then, we analyze the sensitivity to the crisis before, during and after the critical period and differences of this sensitivity between the group of cities that are major sources of outmigration and those destination cities. Finally, all this will be evaluated from the point of view of transformation of the economic, social and political sub-fields.

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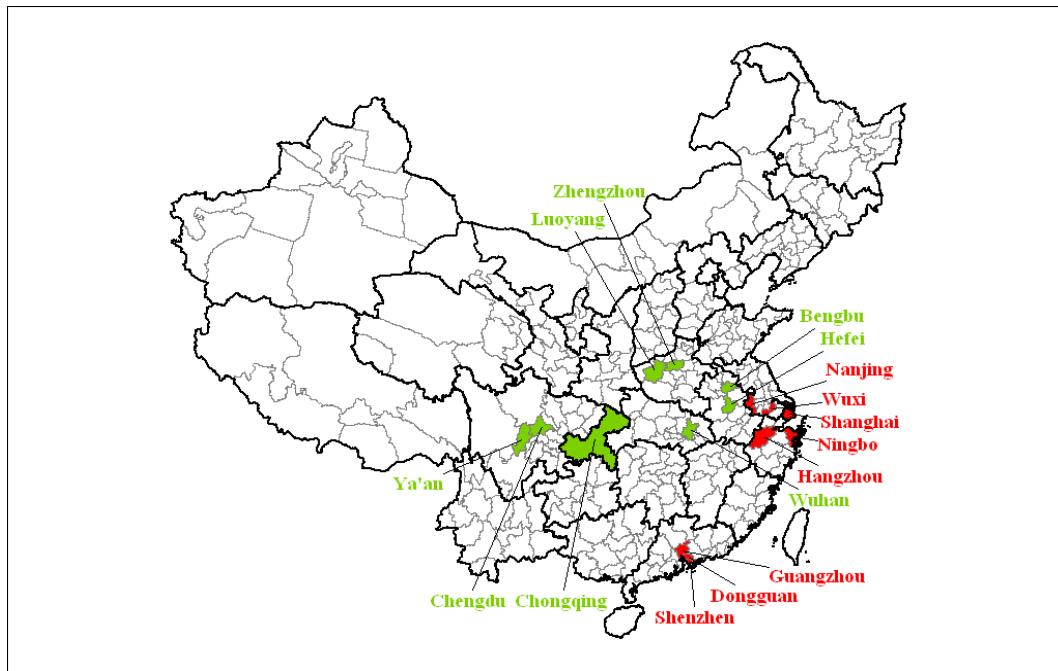
<sup>34</sup> All together eight cities as characteristic sources of outmigration: Luoyang and Zhengzhou (Henan province); Chengdu, Ya'an (Sichuan), Chongqin; Hefei, Bengbu (Anhui); Wuhan; another eight cities as destinations of migration. Wuxi, Nanjing (Jiangsu), Shanghai; Guangzhou, Shenzhen, Dongguan (Guangdong); Hangzhou, Ningbo (Zhejiang).



Map 8 contains with green color the source cities of outmigration that RUMiCI project has taken into consideration for the 5,007 households and 8,403 migrant workers in those households.<sup>35</sup>

Map 8

**Spatial location of chosen source and destination prefectures of migration by the survey based on the RUMiCI project**



In the RUMiCI sample<sup>36</sup> all together 16 cities and 8403 migrants were considered.<sup>37</sup> Migrants were working overwhelmingly at manufacturing industries, whole-sale and food processing sectors in 2007, and only 9 percent at construction industry. This draws a somewhat different picture compared to the generally accepted one where manufacturing and construction industries are said to be the most frequented sectors by migrants. The difference among the general view and the survey results might emerge from the differing sampling methods or the bias caused by the inclusion of source cities.

<sup>35</sup> The scope of the RUMiCI survey was much larger. In sum, 18 thousands individual questionnaires were pursued, at migrant, urban and peasant households, planned as a longitudinal project for five years since 2007 (see sampling methodology in Kong et al., 2009, pp. 240-41 „Impact of Economic slowdown on migrant workers” Sherry Tao Kong, Xing meng and Dandan Zhang [http://epress.anu.edu.au/china\\_new\\_place/pdf/ch12.pdf](http://epress.anu.edu.au/china_new_place/pdf/ch12.pdf) pp. 240-241).

<sup>36</sup> RUMiCI project has two basic data-sets concerning migrant workers. One is the 5007 household, and household heads, and the other is the 8403 migrant workers in those households, including the head. ANU statistics is based on the former, statistics at SEBA counts with the latter. In each case I will note which one I have used.

<sup>37</sup> The calculation of laid off migrants in the RUMiCI sample see more precisely in (Kong et al, 2009, 240-241).

Interviews suggest that lay-offs do not necessarily mean simultaneously enterprise close-downs and bankruptcies. The most sensitive ones to the crisis were those export oriented, foreign and private SMEs at coastal destination cities, either in manufacturing, or electronic goods (Liu, 2009, p. 2). Unfortunately there is no reliable statistical data on the bankruptcies and close-downs versus the creation of new enterprises, neither in number, in profile, in worker absorption, in orientation in ownership and size in profit and taxation etc. Interviews with local labor ministry officials do not provide enough information and also undervalue the importance of bankruptcies. Officials stress that these latter did not exceed the normal magnitude of a competitive process. Interviews however have revealed several methods of enterprise survival, overarching the critical period: temporary shut-downs, wage decrease, partial cut off of working time (in both sending and recipient prefecture), fewer new employments, delayed payment, dismissing workers earlier to national holidays, decrease of overtime work etc.

Interviews also reveal that some exporting branches accommodated flexibly by shifting easily to domestic market. Flexible shift however also needs time.<sup>38</sup> Accommodation by large enterprises is said to have been smoother than that of SMEs. According to interviews, no-brand, raw material processing and assembling enterprises, employing migrants of low level education were more sensitive to declined orders, even if temporary. They also had less room for maneuver in profit margins and less chance for overarching the time until orders reemerge. In some places privately owned domestic enterprises were more sensitive, in other places foreign owned ones. In other cities the state owned enterprises that were more export-oriented were more sensitive, but less flexible to reorient production. Newly funded enterprises were said to be created in equipment manufacturing industry, and service industries. They do not resemble prior ones in labor intensity, in technological level, suggesting different requirements of education, skill and age structure in migrant workers demand, supported by local government tax and other incentives. On the other hand, there are news about low-end SME-s are transferring production to central and western provinces attracted by local prefectures' varied incentives.<sup>39</sup>

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<sup>38</sup> Some export-oriented SMEs are ready to divert themselves to domestic sales. However, it is rather difficult for enterprises to engage in domestic sales. For instance, most large government procurement orders are given to internationally renowned brands, and it is impossible for SMEs with independent property rights and similar product quality to garner such orders.(Liu, 2009, p.18)

<sup>39</sup> Whether interviewees only wanted to repeat central policy or this tendency is really developing is statistically not yet controllable, since enterprise census by the statistical Bureau is carried out only each four year.

## **ECONOMIC POLICY REACTIONS TO CRISIS AT CITIES BEING MAJOR SOURCES OF OUTMIGRATION AND DESTINATION CITIES OF IMMIGRATION**

Behind these competitive phenomena news-papers reveal intensive backstage activities of central, provincial and prefecture level governments on social, economic and political fields.<sup>40</sup> Actions varied in kind: introducing the large-scale stimulus package with focus on the development of central and western regions and absorbing labor-force, freezing wage levels at central government's permit, compensating enterprises loss in several ways, enhancing bank loans, re-introducing export tax-rebates, increasing actions of free training to workers, enhancing individual businesses for migrants, forming funds to compensate wage arrears, easing burdens for survival of SMEs by exempting from, or postponing the requirements of social security taxes, collaborate with sending prefectures to regulate migrant flow, constraining mass layoffs through defining the ceiling layoffs at one time, and ordering compulsory report to authorities by enterprises if the number of laid-off was higher than predetermined and so on.

The question is whether authorities reacted routinely to emerging problems and tensions or some new characteristics emerged as a reaction to the impact of crisis? We also want to check what were the common and differing characteristics among "origin" and destination cities?

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<sup>40</sup> Major classification criteria of published economic policy news were the following:

Actors:

the administrative level of the organization in action; the activity sphere of the organization; if they acted alone or jointly with other organization; the level and activity sphere of this organization;

The motivation of action:

*Social*: job security directly to workers, job security by subsidizing enterprises, job security by constraining free lay off, retraining of workers; helping graduate students; inter-provincial labor collaboration

*Economic*: funding individual business, export incentive; FDI attraction; SME help; participating in the stimulus plan from central resources, participating with provincial resources; participating in the stimulus plan with local resources

The nature of measures:

Institutional outcome: new organization, or new function; Applied measures: new or old ones; Purposes of application: new or old purposes; Extent of institutionalization of actions in time: short-term, or long-term; Impact of actions on the transformation: strengthening (expanding) the network, strengthening (expanding) the competitive field, strengthening both.

Table 8.

**Time and space dimensions of the analysis of prefecture level responses**

<b>SPATIAL ADAPTATION TO CRISIS IN GENERAL (2008.07-2009.12)</b>		
	<b>Measures</b>	<b>Nature of measures</b>
	<b>(Different types)</b>	<b>(new/ old, short-term/long-term, impact on network/market)</b>
<b>Common features</b>		
<b>Different features</b>		
<b>SPATIAL SENSITIVITY IN ADAPTATION BEFORE (2008.07-2008.10), DURING (2008.11-2009.04) AND AFTER THE CRISIS (2009.05-2009.12)</b>		
<b>Common features</b>		
<b>Different features</b>		

Table 8. shows how many dimensions of this analysis could have been demonstrated regarding the spatial sensitivity of adaptations. This time we shall deal only with those segments where boxes are colored in the table: the common characteristics in the nature of measures of source and destination cities during the whole researched period (from July 2008 to December 2009); the different characteristics during the same period; the common and different characteristics in the nature of decisions taken at source and destination cities in the short-term dynamics before, during and after the major impact. With this method we can shed light on whether applied methods were equally or differently influencing the speed of transformation during the whole and during the critical period. <sup>41</sup>

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<sup>41</sup> Owing to extension constraints, only final conclusions of the detailed news analysis can be included in this paper

## COMMON TRAITS

In fact, interviewees stressed that crisis came all of a sudden, so they were unprepared to take measures in advance to smoothen the impact. According to the available news collection, both source and destination cities groups overwhelmingly reacted on social rather than economic purposes. They were dominantly oriented to compensate direct social impacts of the crisis rather than those economic, strengthening former functions and occasionally creating new measures within the state apparatus rather than new organizations (Csanadi 2010). They were more frequently oriented towards individual businesses, and towards SMEs rather than strategic economic state owned units.

Still, published government interventions during the one and a half year of surveyed period reflected an overall higher frequency of measures increasing the competitive sphere rather than increasing the network on social fields of economic transformation. As to the propagation of actions, interviews reveal that solutions to critical conditions were not monitored among neighboring destination or source cities or provinces. However, several interviewees reported on frequent cross relations between source and destination cities over the regulation of migrant flow. This general picture, however, becomes more subtle if we take the group of destination and source cities of outmigration apart.

## SPATIAL DIFFERENCES

Despite common traits the perceived ratio of the above characteristics is different between source and destination cities' groups. Source cities' governments seem to have less accumulated government funds, but more power over bank loans. Decisions are more frequently connected directly to enterprises, and overwhelmingly advertise short-term measures with new institutions. In this group, the impact of those measures point rather more weakly towards market development than at destination cities. In turn, these latter seem to have more government funds to distribute, less frequently substitute those by bank loans to enterprises. Actions move the economic transformation toward the institutionalized development of the market sphere rather than increase state power. Based on my so-far empirical experiences, the distribution of power of the party-state network in source prefectures is supposedly more centralized than at destination cities.

Two further questions emerge: can we find changes in the importance of implemented measures before, during and after the crisis? If yes, do these changes differ according to source and destination cities?

## **ADAPTIVE SENSITIVITY TO CRISIS IN THE DYNAMICS OF ACTIONS**

In order to find answers to the above questions, we have reordered the news of the two groups according to publication date, and separated them into three periods:

- (1) 2008.07 to 2008.09 when global crisis was developing,
- (2) 2008.10-2009.03 when global crisis hit and started vanishing and
- (3) 2009.04 to 2009.12 the period after the crisis until the end of the year.

The total number of the kind of measures publicized in the period before crisis, during and after it at source cities was 30, 335 and 153, while at destination cities were 58, 253 and 81 respectively. These numbers show the much higher absolute amount of propagated measures during the short crisis period in each group that even if divided by the respective months shows the same characteristics.<sup>42</sup> Let us take 100 percent the frequency of mentioning all measures in each period. Measures are ranked according to the share of the frequency of the given measure in each three period in decreasing order of the frequency of shares. We shall get three columns, representing each period's share rank of measures. Then we have compared the data in each row classifying their dynamics into five groups.<sup>43</sup> We were especially keen to see the characteristics of sensitivity of authorities to crisis period through the increasing or declining importance (share) of some measures in the critical period compared to preempting and following periods.

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<sup>42</sup> Here again we have to stress that we cannot confirm that this is only the number of news concerned or the real activities of the local government.

<sup>43</sup> The five groups were: 1) the size of shares did not change during the three periods; 2) shares increased continuously; 3) shares decreased continuously; 4) decreased only during crisis period; 5) increased only during crisis period.

## COMMON FEATURES

Comparing the sensitivity in adaptation before, during and after the major crisis both groups reacted sensitively during the critical period. We could experience the temporary higher frequency in the critical period of those news that mention initiatives of superior authorities, both central and provincial, and the involvement of local political authorities, thereby heating up the network's activity and expansion. Heating up of the network's activity meant the deceleration of the transformation. But, with the waning of the shock period of the critical period, after the critical crisis, at both groups deceleration proved to be transitory, and therefore reversible.

## SPATIAL DIFFERENCES

Taking the size of the share as importance in one period, results at western and central cities as sources of outmigration show the following: more administrative activity occurred from all administrative levels jointly and individually both as initiators and also occasionally involving other institutions from political, financial and administrative fields with heightened frequency in joint actions. Meanwhile, the frequency of mentioning local administrative organizations as resource distributors has dropped. The heightened frequency of interventions during the critical period has temporary slowed down the retreat of the network, and thereby, the speed of transformation. Meanwhile, at coastal cities, as destinations of immigration news about the resource distribution of local administration rather than that of higher levels increased in frequency during the critical period. So did measures involving lower than prefecture level government activity, and measures that slowed down the transformation or enhanced both fields also temporary increased in frequency. It seems that during the critical period the higher levels of the network was more active at sources of outmigration than at destination. These latter mobilized more frequently the local network during the critical period rather than that of higher levels.

## CONCLUSION

The goal of the paper was to test some theoretical statements of the Interactive Party-State model regarding the sensitivity of party-states to internal and external adaptation pressures during the process of system transformation. This was examined both in the period of global growth and global decline in China. Initial hypothesis stated that global growth directly incites macroeconomic growth and indirectly contributes to the accelerated transformation of the economic sub-field while increasing party legitimacy. Inversely, we have supposed that global recession directly contributes to macroeconomic decline and may indirectly catalize the preconditions of the transformation of the political sub-field.

Transformation process was theoretically defined as the retreat of the party-state network attached to different sub-fields and simultaneously the emergence and expansion of the competitive field of that sub-sphere outside the network. In order to quantify the relationship of the dynamics of the retreating and emerging fields during transformation an operative analytical tool was introduced: indicator of “the transformation dynamics” . The dynamics of transformation measures the relative pace and direction of the two intertwined fields of the dynamics of economic transformation, that of the state owned field and the competitive field. We have distinguished the dominant types of transformation dynamics and analyzed the disparities of these transformation dynamics at different aggregation levels, and in space and in time in China. The indicator demonstrates sensitivity to external impacts, by shifting the type of dominant transformation dynamics after the WTO accession, expanding the network field, though in a slower pace than that of the competitive field. Shift in the dominant type of transformation dynamics meant the transitory slow-down of the pace of economic transformation.

New shift in transformation dynamics was forecasted due to the impact of global crisis. Based on the characteristics of changed dominant transformation dynamics it emphasizes a possible impulse for the commencement of political transformation. However, this hypothesis had to be refined with the time-span factor based on the examination of institutional reactions. Economic crisis, though deep, did not last long to challenge the stability of the Chinese power structure, and did not enforce longer term institutional adaptation of the political subfield. Initial shocks to political, social and economic sub-fields vanished within half a year. During this period overwhelmingly temporary overarching actions occurred both among economic, political, state and social fields rather than long-term institutional, while external pressure also decreased. On the longer run the tendency of economic transformation of the Chinese party-state remains steady. Short-term adaptation pressures do not destabilize the political sub-sphere since compensating economic policy interventions on social field may temporary



smothen anomalies. Had the crisis and internal and external adaptation pressures lasted longer, overarching social measures probably would have been replaced by more substantial institutional changes. It is another question whether these substantial changes would enhance or delay system transformation.

Based on that approach, we conclude that the transformation process in China has demonstrated sensitivity to short-term external and internal impacts that caused fluctuations in the direction and speed of the transformation process both during sudden relaxations in external pressures and sudden increase of external pressures. In both cases we have experienced a temporary slow-down of the economic transformation process that keeps the stability of the political sub-sphere rather than transforming it. And in both cases spatial specifics were revealed.

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