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Economic and Systemic Consequences of Adaptation to External and Internal Pressures Caused by Global Crisis in China

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DISCUSSION PAPERS

MT-DP – 2012/9

Economic and Systemic Consequences of Adaptation to External and Internal Pressures Caused by Global Crisis in China

MARIA CSANÁDI

Discussion papers
MT-DP – 2012/9

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Economic and Systemic Consequences of Adaptation to External
and Internal Pressures Caused by Global Crisis in China

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Economic and Systemic Consequences of Adaptation to External and Internal Pressures Caused by Global Crisis in China

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Abstract

Global downturn in 2008 exerted strong adaptation pressures on China that incited prompt state response. The one-off large state intervention had consequences in several dimensions: on the one hand, it had a positive impact on the system's short-term economic, social and political stability by dynamizing different economic sub-spheres. State intervention, at the same time, temporary slowed down the process of economic transformation and also mobilized system characteristics that lead to overheating and to renewed state intervention to cool it down. This paper sheds light on the consequences of adaptation to external and internal pressures on national, sectoral, regional, and structural dimensions from a systemic point of view.

Keywords: party-state model, short-term shocks, adaptation, system transformation, global crisis, overheating, spatial disparities

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

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A globális válság okozta külső és belső adaptációs nyomás gazdasági és rendszerszerű következményei Kínában

Csanádi Mária

Összefoglaló

A globális válság 2008-ban erős adaptációs nyomást gyakorolt Kínára, amely azonnali választ váltott ki az államapparátusból. Az egyszeri, nagy volumenű állami beavatkozásnak következményei számos dimenzióban jelentkeztek. Pozitív hatása volt a rendszer rövid távú gazdasági, társadalmi és politikai stabilitására azáltal, hogy a különböző alrendszereket dinamizálta. Az állami beavatkozás ugyanakkor átmenetileg lelassította a gazdasági átalakulás folyamatát és mobilizálta a pártállami rendszer sajátosságait, amelyek szükségszerűen túlfűtöttséghez és újabb állami beavatkozáshoz vezettek a növekedés lehűtése érdekében. Ez a tanulmány a külső és belső adaptációs nyomás következményeit vizsgálja nemzeti, ágazati, területi és szerkezeti dimenziókban a pártállami rendszer szemszögéből.

Tárgyszavak: pártállami modell, rövid távú sokkok, adaptáció, rendszerátalakulás, globális válság, túlfűtöttség, térbeli egyenlőtlenségek

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

Köszönetnyilvánítás:

A cikk eredményeit az OTKA által finanszírozott kutatás biztosította. Köszönettel tartozom Gyuris Ferencnek, akinek szakértelme a szükséges térképek, ábrák és táblák megrajzolásával elengedhetetlen volt e cikk megszületéséhez. Ez a cikk The 23rd CEA (UK) and 4th CEA (Europe) éves konferenciájára készült.

INTRODUCTION

Global crisis exerted worldwide adaptation pressures on countries' international and domestic behavior and development. The more integrated financially and economically in the global market, the higher the adaptation pressures and the more sensitive the reactions. Financial crisis soon evolved into economic crisis. Not only banks but also states had to be bailed out. Governments crumbled, conflicts sharpened among social welfare systems, aging societies and competitiveness. Hard questions were raised against market liberalism, democracy and state roles in the economy and generally (Tanzi, 2009; 2010), on the model of capitalism. „Order” is required by the mass to overcome chaos and to put an end on expanding unemployment. State interventions increased, conservatives and right wing extremists got more ground in democratic countries. Recovery is slow, and the raised questions remained unsolved. Social conflicts persist, and impoverishment is expanding. Not only Europe and the USA, but also Asia was strongly attained by the global crisis with unexpected speed and force owing to its integration into the international production networks (Pula and Peltonen, 2009). „Asian exports by 2009 tumbled by over 30%, stock prices fell by more than 60%. Asian economies, excluding China and Japan, contracted by an average of about 6.2% from peak to trough.” (Swee Keat, 2009, conference, panel discussion). Despite of such facts, experts were forecasting a triple growth in purchasing power from 2008 to 2018 for Asia, including China, as opposed to the gloomy outlook for Europe and the US (Business Monitor International, 2010, p.1).

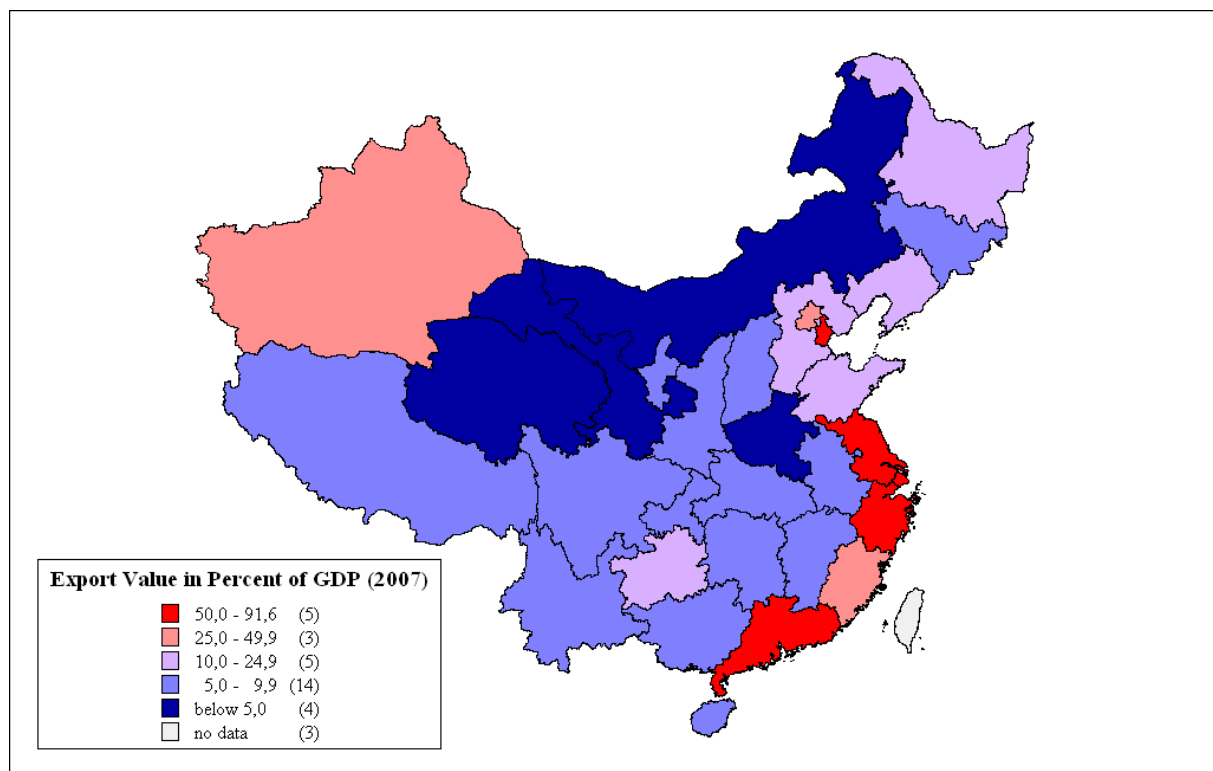
Looking at the Chinese statistics in 2008-2009, the annual data hardly show the impact of the crisis mentioned in Asia. Still, more detailed monthly data reveal a radical but short period of decline in external and internal indicators of economic development (export, import, FDI, GDP, unemployment). This short backlash however, had prompt and sensitive reactions both at central and local levels. Interventions helped to overarch temporary social, political and economic tensions. They also had structural consequences on spatial disparities of economic development, migration routes, production structure, export structure, and economic transformation. Interventions also influenced the speed of economic transformation and mobilized systemic features of party-states in general combined with specific Chinese characteristics. These latter two provide the systemic reasons for the overheating of the Chinese economy. In sum, the paper deals with the sensitivity of the Chinese system to global dynamics, and the consequences of this dynamics on system, national and regional levels.

SENSITIVITY TO GLOBAL DYNAMICS

It sounds evident that the more integrated the countries were into the global economy the stronger the adaptation pressure was and so was their reaction to the impact of global downturn. China's integration and sensitivity to global dynamics increased in giant steps since 1979 onwards when the opening up was announced and gradually put into practice by Deng Xiaoping. By 2007, the share of foreign trade in the GDP was 66.8, within that, export accounted for 37 percent of the GDP (Cai F. et al., 2010, p.36, 38). FDI in that same year was 2.2 percent of the GDP¹. Sensitivity to external dynamics, however, was characteristically different in space. Map 1 shows the potentially higher spatial sensitivity of coastal provinces due to the higher than average share of the export in GDP at those locations (Lin and Hu, 2011).

Map 1.

Potential differences in spatial sensitivity to global downturn: percentage of export in the local GDP



Source: Michigan University China Data Center

¹ The importance of this sum is supported by the World Bank in 2010, according to whom about 20 percent of all foreign direct investment in developing countries over the past 10 years went to China (People's Daily Online, 2010, July).

This potential sensitivity further increases through the fact that the annual foreign direct investment inflow was overwhelmingly concentrated on export and to the coastal regions (Csanádi, 2008, p. 45 Map 4). Export and import of products and capital have a multiplying effect not only in economic, but also in social and political dimensions. For example, one-third of China's labor force is composed of migrant population. The size of this floating population was 140 million in 2008. One third of all migrants were employed in export-oriented manufacturing industries located overwhelmingly at coastal provinces, while according to expert estimations, 80% of labor force in manufacturing industry was composed by migrants². Inland provinces provided about 80% of migrants who sought job outside their own province. Coastal provinces absorbed about 70% of migrants from other provinces³ contributing to the spatial disequilibrium in export, FDI, active population, or GDP density towards the coast⁴. This fact not only shows the export sensitivity of the manufacturing industry, and spatial sensitivity of export owing to its concentration to coastal provinces, but also political sensitivity in space both of the central and western provinces as sources of outmigration and coastal provinces as destinations of immigration and concentration of immigrant labor.

Sensitivity to global dynamics emerges also when capital flows outwards. By the end of 2007 around 7,000 Chinese domestic enterprises had made 118 billion USD in direct investments in 173 countries and regions around the world.⁵ The crisis offered new opportunities for Chinese enterprises abroad. In the first quarter, China invested to establish 445 companies overseas, the figure has increased 6.8% year on year and exceeded \$9.4 billion in 2009, up 54 percent year-on-year in 2009.⁶ China's non-financial direct foreign investment reached 3.7 billion USD in 2009. In addition, a number of major projects are under negotiation.⁷ By 2009 Chinese investors had established more than 13,000 companies abroad, in over 180 countries and territories.⁸ Thus, taking the above and also the export's further multiplying effect on the GDP growth through consumption and investment channels, (Cai et

² Communication with Kam Wing Chan, 2010

³ Compiled by the autor from NBS labor chapter of the one percent census, 2005

⁴ For experiencing on of the most important economic, social and political dimensions of the multiplying effect of external dynamics see the working and living conditions of migrant workers coming from rural areas to urban workplaces described by Li Shi (Li, 2008).

⁵ ExxUN 2009.04.19. http://www.exxun.com/China/e_ec.html

⁶ "Chinese enterprises active in global restructuring" 17:04, June 04, 2009 <http://english.peopledaily.com.cn/90001/90778/6671987.html>

⁷ "Chinese firms are going global in various industries such as automotive, steel, metals, energy and computers to explore new markets and acquire raw material and energy resources. China's mining and metal industry mergers reached \$16.1 billion in 2009, accounting for 27 percent of the total volume of business in the world, according to the latest report by Ernst and Young." *Crisis good opportunity for Chinese companies to go global* By Lan Lan (China Daily) Updated: 2010-04-12 09:08 http://www.chinadaily.com.cn/china/2010bfa/2010-04/12/content_9714726.htm

⁸ Facing the Risks of the „Going Out” Strategy. François Godement - Jérôme Doyon - Jade Le Van - Thomas Vendryes - Gong Cheng 26 Janvier, 2012-02-17 <http://www.centreasia.eu/publication/china-analysis-january-2012-facing-the-risks-of-the-going-out-strategy>.

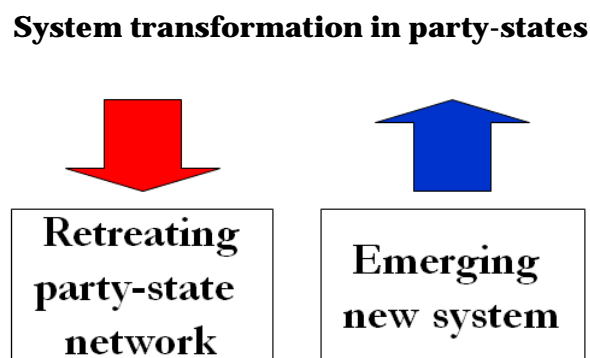
al, 2010, p. 38), sensitivity to external and internal adaptation pressures and its direct consequences on political legitimacy are evident.

In the case of China however, sensitivity to external dynamics is not only directly reflected in the above economic, social and political dimensions but also may be indirectly detected in its systemic dynamics. This sensitivity is revealed in the changes of the direction and speed of the transformation process and in the systemic consequences of state intervention. Next we shall detail the theoretical approach of this paper that allows for the evaluation of the direct and indirect consequences of external and internal dynamics from a systemic point of view.

THEORETICAL APPROACH OF THE TRANSFORMATION

Let us first define our approach regarding the system transformation itself. This approach is based on the respective criteria set within the framework of the Interactive Party-state (IPS) model (Csanádi, 2006, 2011). The model defines the basis of the communist systems as the politically monopolized power network of institutional relationships that evolves among party-state- and economic decision-makers during the decision-making process⁹. Thus, from this point of view, the process of system transformation is interpreted as the process of retreat of the party-state network as a social system from politically monopolized economic, political and social sub-spheres, and meanwhile, the emergence of the sub-spheres of a new social system outside the network. Arrows on Figure 1 show the direction of the process of system transformation.

Figure 1.



⁹ Party-state network as a social system is formed from the interrelationship of party- state- and economic decision-makers during the decisionmaking process. Interlinking dependency lines as parts of the network, are the instruments of power deriving from the party hierarchy. They stretch out and infiltrate the boundaries of other sub-fields and non-party institutions and overlap the decisionmaking process through the positional, organizational, activity structure and individual decision-makers in non-party institutions. Short-cuts of the process are available for strategic actors within the network. Thus, interlinking lines and short-cuts define dependencies, interest promotion possibilities and built-in inequalities within the network. Different bargaining positions within the network provide the distribution of power in party-state systems.(see in detail in Csanádi, 2006)

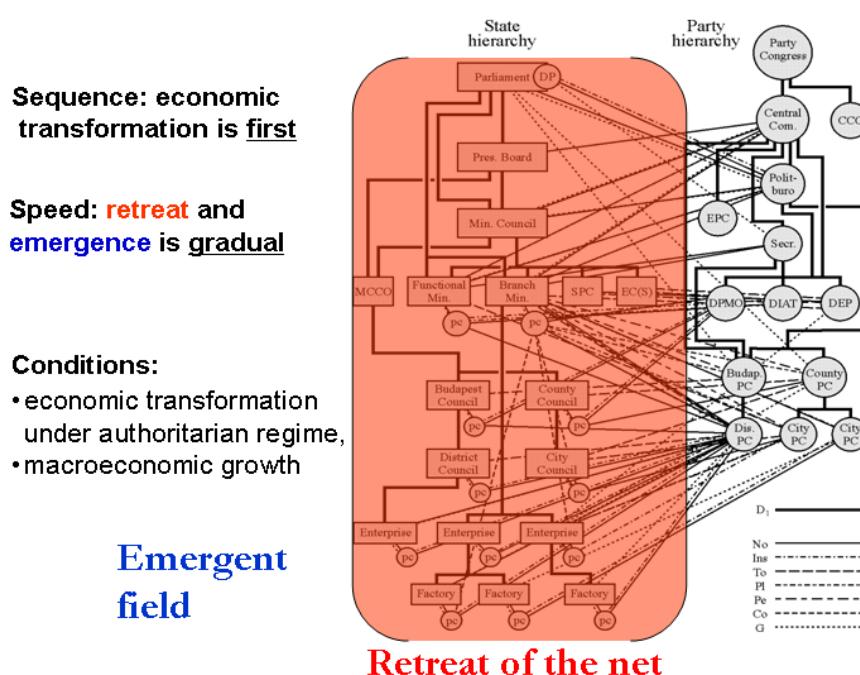
Transformation may attain all subfields of the whole social system simultaneously, or overwhelmingly individual sub-spheres at one time. Accordingly, either first economic or first political subfield may transform, or all subfields may transform simultaneously, gradually or abruptly in time. Therefore, system transformation may vary in the order-, speed- and conditions of transformation of individual sub-fields (political, economic etc). Order, speed and conditions strongly depend on the characteristics of the pattern of power distribution within the power network (Csanádi, 2011). In turn, order and speed will determine the economic and political conditions under which the system transformation is taking place.

Transformation process of any subfield may be absolute, when the network is physically contracting: emptying, being cut, shortened and weakened, while outside the network the emerging field is expanding (see in detail in Csanádi, 2011 DP 2011/5). Transformation may be relative as well: either when the network is stagnating while the emerging field is expanding, or both are expanding, but the expansion of the emerging field is faster.

In this paper we shall not detail the different patterns of power distribution and their specific consequences on the operation and transformation of party-states. We shall only focus on the case of China, (see in detail in Csanádi, 2011 DP 2011/5), where by the end of the 1970s a specific pattern of power distribution was institutionalized owing to Mao's repeated decentralizing-centralizing campaigns. The most important characteristics of that pattern still prevail. The power structure is relatively decentralized in the economic subsphere, that is, resource extraction and distribution is possible also at sub-national levels. Therefore, local levels' exposure to central authorities is weaker, and resisting capacity to central intervention and resource extraction is higher than in other party-states. Owing to these pattern specifics, self-reproduction of the power network is increasingly inefficient from resource extraction from within the network. Due to frequent hardening of reproduction constraints of the whole structure through the 1980s, drives strengthened to leap out of the structure and create resources to absorb into the network by expanding the field outside of it (market field).

Figure 2.

System transformation in the case of China



By gradually expanding the market field while gradually contracting the network field (Lin and Hu, 2011) first economic transformation is taking place. The network is retreating both in absolute and relative sense. The absolute and relative retreat of the network from the economic sub-sphere is gradual, and so is the expansion of the emergent field. Transformation is occurring under conditions of authoritarian political regime accompanied by macroeconomic growth (Figure 2).

The specifics of power distribution within the system, the respective order, the speed and the domestic economic and political conditions of system transformation are in strong interaction with the impact of external dynamics: global growth or global decline. The more integrated the country into the international economic system the stronger is this interaction, the more sensitive is the system to pressures for adaptation. Transformation may temporary shift direction and varies in the relative speed of expansion or contraction of its network and emergent fields. Shifts in directions and speed depend on the mode of adaptation to external and internal impacts. Modes of adaptation, in turn, strongly depend on system specifics, that is, on the characteristics of power distribution within the network (Csanádi, 2011). Thus, *adaptation will be pattern-conforming*. Patternconforming adaptation, in turn, will have its specific systemic consequences. We shall approach the impact of the global crisis from this systemic point of view.

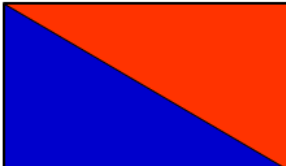



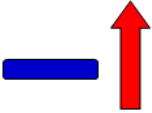

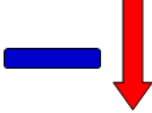
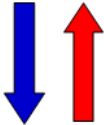

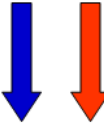
THE DYNAMICS OF TRANSFORMATION

We shall call the relative variations of direction and speed of change as *transformation dynamics*. This latter is a complex term: it consists of (a) the varieties of changes in the network field: growth, stagnation or decline (b) the varieties of changes in the market field: growth, stagnation or decline. (c) The varieties of the speed of changes in one or the other direction in relationship to each other. Thus, the speed of one field may be faster, equal or slower than that of its counterpart. In this sense, transformation dynamics contains the *combination* of the varieties of direction and speed.

The next table (Table 1) shows the variations of directions the transformation process may take. Each variation is a type of transformation dynamics involving different speeds relative to each other.

Table 1.

Types of dynamics owing to the relative directions of change

 Growth	Growth	Stagnation	Decline
Growth			
Stagnation			
Decline			

Considering the different types of transformation dynamics in Table 1, sub-sphere transformation (no matter if economic or political) occurs when the expansion of the emerging sphere persists while the network field relatively grows, stagnates or declines. As it was mentioned, in the process of transformation the type of transformation dynamics may temporary shift for shorter or longer period of time, and also the speed may change to higher or lower, with or without shifting types. According to the model, if stagnation or contraction of both network and emergent fields in one sub-field persist for longer term, adaptation pressures may increase towards the transformation of further sub-fields.

THE SYSTEMIC IMPACT OF GLOBAL DYNAMICS

These internal processes are strongly influenced by the global dynamics external to the system. In China, owing to system-specific individual characteristics, we argue that global growth may accelerate economic transformation, while global decline may slow down or even may reverse it. We shall deal with this latter process.

Slow-down may evolve in several ways (Table 1): when both fields expand, but the expansion of the network field is faster than that of the market; with the stagnation or contraction of the market field as opposed to the expansion of the network field; or with the stagnation or contraction of both fields. We suppose that prolonged double contraction may cause the decline of political legitimacy and adaptation pressures create the preconditions for the propagation of transformation to the political sub-field in China. The hypothesis is supported by the dynamics of the model that suggests high systemic sensitivity both economically and politically due to the thorough inter-twined of economic and political sub-spheres. In case of China the depth of integration into the global economy will only increase the pattern's sensitivity to pressures of adaptation. However, uncertainty arises on the theoretical support in the case of China, since there is no example for the transformation of the political sub-field *second*, pre-empted and accompanied by economic crisis and political delegitimation *after* economic transformation first. Moreover, in the case of China owing to several individual system specifics, large mobilizable reserves were accumulated that allow for the temporary compensation of external and internal constraints, and thereby to cushion downturn.

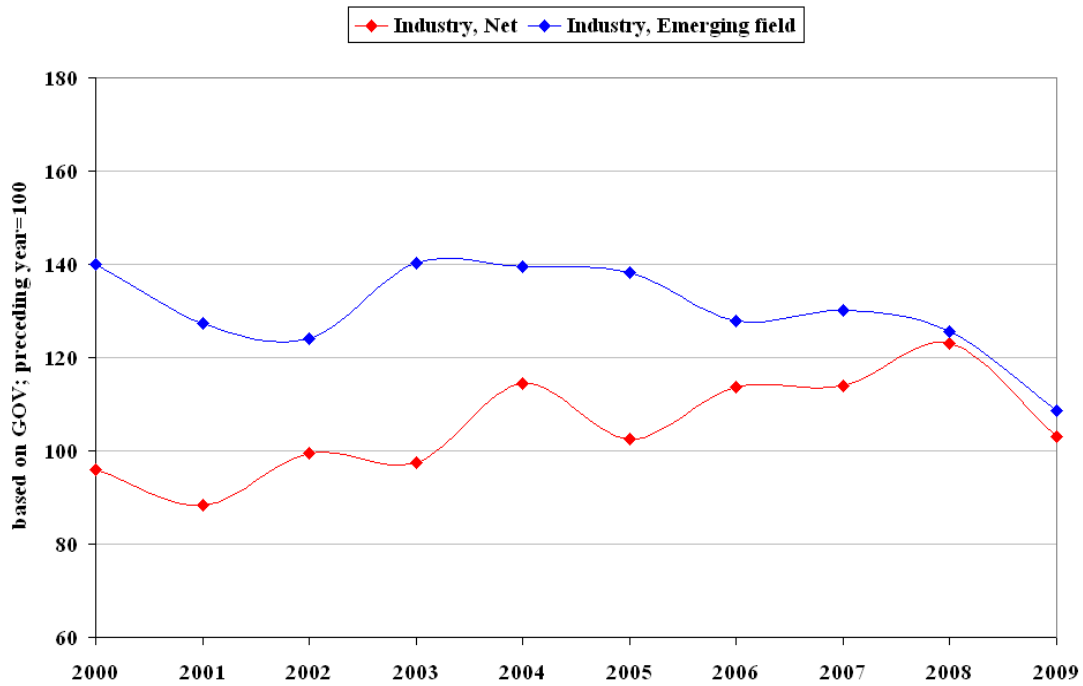
THE QUANTIFICATION OF THE TRANSFORMATION PROCESS AND ITS DYNAMICS

We may roughly quantify the process of transformation and its dynamics if we take one indicator relatively consistent in time and in content in the industry: that of the Gross Output Value (GOV). We can form two groups of economic units (1) those economic units that depend overwhelmingly from, and are integrated into the network (e.g. state owned enterprises, township and village enterprises) and (2) those that depend overwhelmingly from the emergent field (in case of China these are the domestic- and foreign private enterprises). We can interpret this rough indicator as an indirect measure of the network and the market (emergent) field. Using the yearly dynamics of these two groups in GOV we can trace the transformation dynamics during the period of global growth and global decline (see Figure 2). What we can see on this figure is the absolute retreat of the network until 2003, then a shift to relative retreat with steady expansion of the network field but the much faster expansion of the

market field until 2007. The steady expansion instead of earlier contraction presumably was the impact of entering the WTO that dynamized both fields. The differences among the speed of expansion of the two fields have decreased in 2006-2007 owing to the acceleration of the expansion of the network field, though always lower than that of the market field (Figure 3).

Figure 3.

Dynamics of transformation during global growth and global decline













Note: Preceding year = 100%

Source: Compiled from the database of Michigan University China Data Center

Consequences of the changed external dynamics are seen in the radical slow-down in the growth rate of both the network field and emerging fields though the type of dynamics did not change. Yearly data of Table 2 blurs the fact that slow-down occurred from the last quarter of 2008, when the Chinese economy was harshly hit by the global crisis.

Table 2.

Dynamics of transformation in the industry

Industry	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Network field speed	95.9	88.3	99.6	97.5	114.5	102.5	113.8	113.9	123.8	103.2
Emerging field speed	140.0	127.3	123.9	140.4	139.5	138.1	127.8	130.0	125.5	108.7
Direction										

Note: Preceding year = 100%

Source: compiled data from Michigan University China Data Center

As a result of the crisis, the so-far frenetically growing exports abruptly dropped, and so did imports and FDI. Also GDP growth has suffered a serious backlash (Figure 4, Figure 5). The contribution of net exports to the GDP growth decreased to 0.8 in 2008 from the 2.5 in 2007, and turned into minus 3.7 in 2009 (Wong, 2011 p. 15). Several thousand small and medium sized enterprises disappeared from the economic scene overnight (Liu, 2009 p.12). Workers were suddenly left without job and due payments (Cai and Chan, 2009). Over 16 percent of the 140 million migrants (23 million) found themselves unemployed on a sudden in late 2008. They had low chances to find work at their rural home-town (Chan, 2010, p. 251) and many dispossessed from land owing to government development and investment strategies (Chan, 2010, p. 20, referring to Chin and Yu, 2009).

Figure 4.

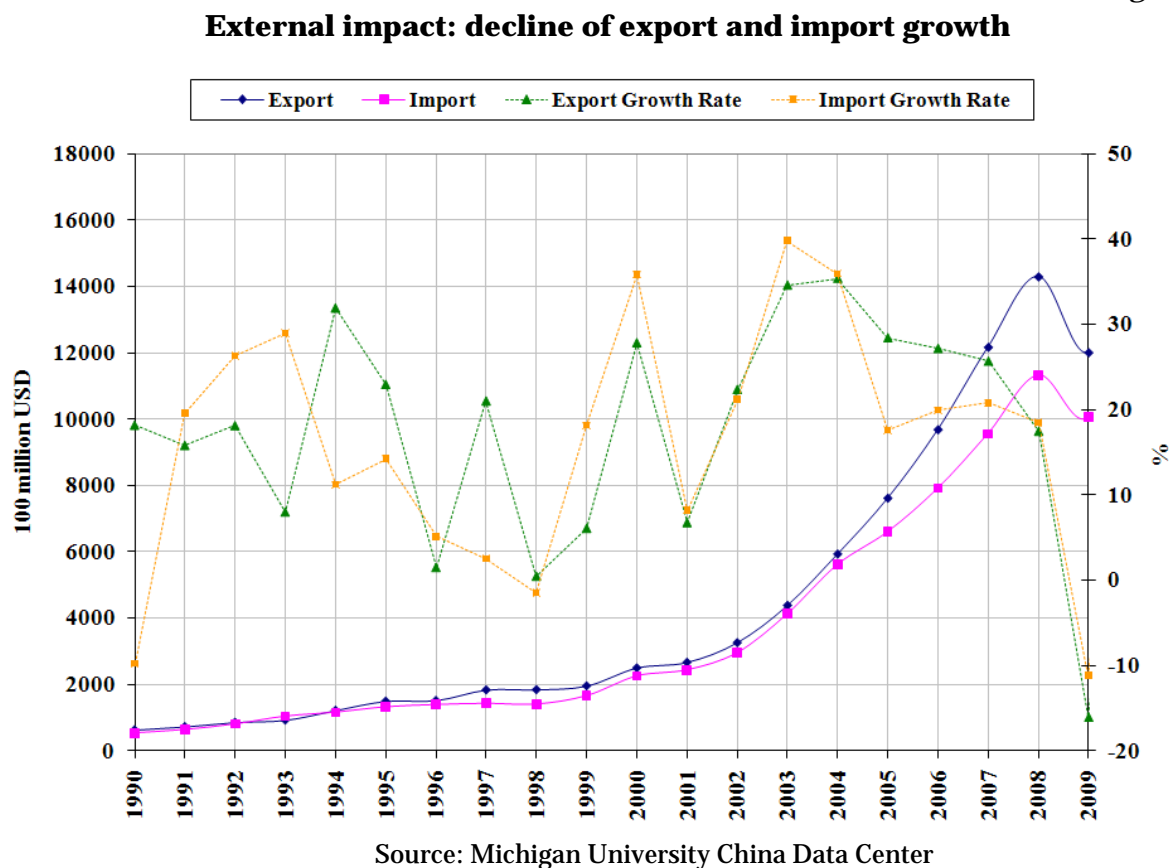
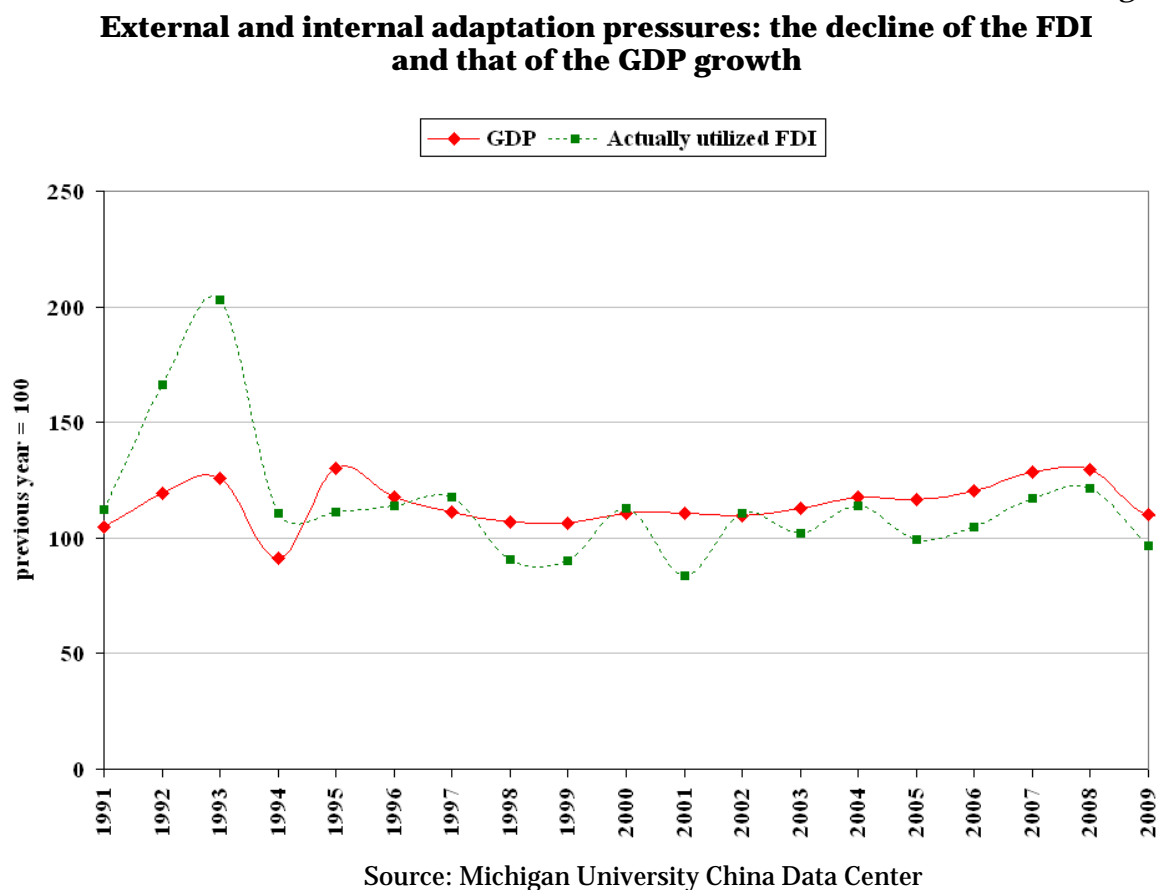


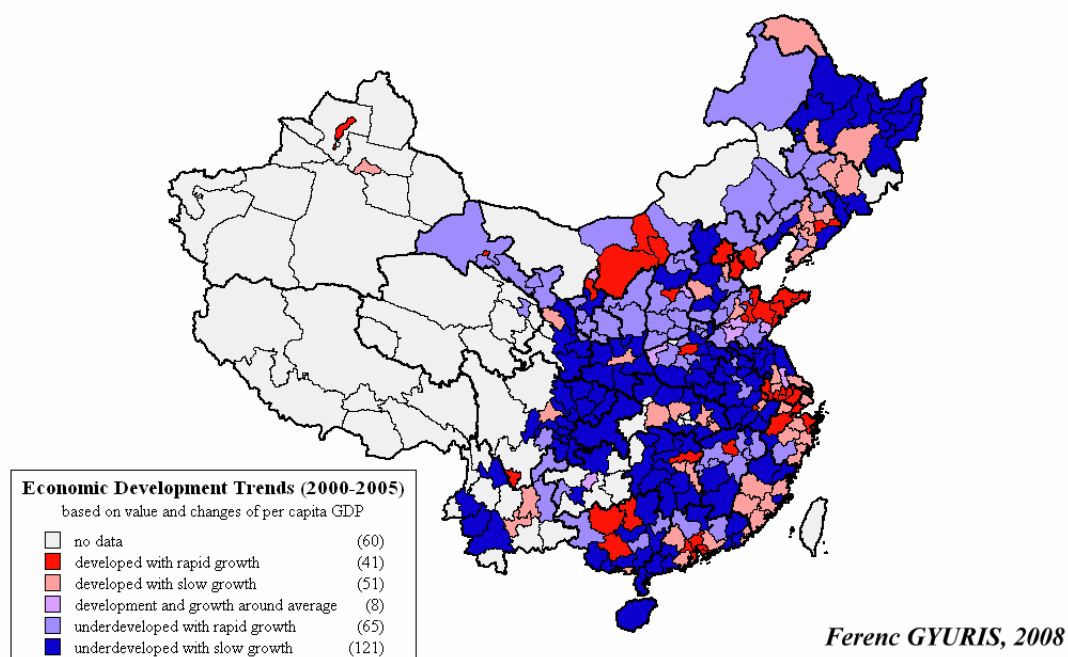
Figure 5.



Political sensitivity regarding the spatial concentration of exports and migrants working in exporting industries might have been multiplied and accentuated by the potential distribution of migrants *within* coastal provinces. Map 2 demonstrates the level and the dynamics of prefecture level GDP per capita. Interestingly enough, one may see that prefectures with high level and fast growing GDP/capita are surrounded by prefectures which have low level and slow growth GDP/capita. We may justly suppose that those prefectures with high level and fast growing GDP/capita are the more urbanized, industrialized. This simultaneously suggests that migrants are concentrated in those prefectures. Thus, in case of sudden lay-offs in those prefectures migrants will be practically “locked in”, since surrounding prefectures with low level of GDP/capita and slow growth will not be able to offer alternatives and absorb them. These circumstances might have well lead to increased political tensions since 23 million migrant workers lost job and forecasts were gloomy (Bukley, 2009, Cai and Chan, 2009: 520; Chan 2010: 251, Chan, 2010: 12, Kong et al. 2009, Meng et al., 2010, Wong, 2008). The gloomy picture was supported by the fact that 600,000 enterprises have closed down partly owing to the constraints in economic policy measures on export, labor contract starting from early 2008, and reacting to the impact of the crisis from the third quarter of the same year (Kong et al. 2009, p. 237)

Map 2.

**Spatial political sensitivity in the local concentration of migrants
in the face of development trends**



Source: With permission of Gyuris, F. (2008): Regional disparities in China. Thesis work. Eötvös Loránd University, Department of Regional Science. Budapest (manuscript, in Hungarian)

Social-political events of the first months underlined the the evolution of political tensions. Mass protests developed in larger scope and became more violent and more frequent¹⁰. From end of 2008, to the first quarter of 2009 127,000 protests were officially registered, compared to those of 87,000 in 2005. Protesters were storming local government departments, attacked on police and judiciary authorities and government buildings and vehicles, and insolvent economic units (Walsh 2009). Members of the intelligentsia became also more vocal, demanding political change in a petition released in mid-December (Carta 08, Demick, 2008). 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 (Khoo, 2008).

The possible unfolding of initial developments however remained uncertain. One could not predict if localized and regionally clustered political adaptation pressures would spatially propagate, and if yes, with what speed. Also it was impossible to predict the sensitivity to the transformation dynamics to external and internal developments and its extension in time. Neither the extent of political sensitivity and adaptive reactions on the short term were predictable. One did not have experience either on the reversibility of the evolving process if conditions changed for the better and adaptation pressures ease. And pressures did definitely ease very soon since external and internal conditions smoothened. By the end of the first quarter of 2009 foreign trade gained new impetus (Figure 6) and also GDP and Gross Output Value in industry grew sharply (Figure 7) while rural migrant unemployment dropped to 4,5 million or 3 percent of the total of 150 million rural migrant laborers in mid-2009 (Cai and Chan, 2009, p. 521) .

¹⁰ On the reasons, background and success and failure of collective unrest see Cai Yongshun, 2008, 2010.

Figure 6.

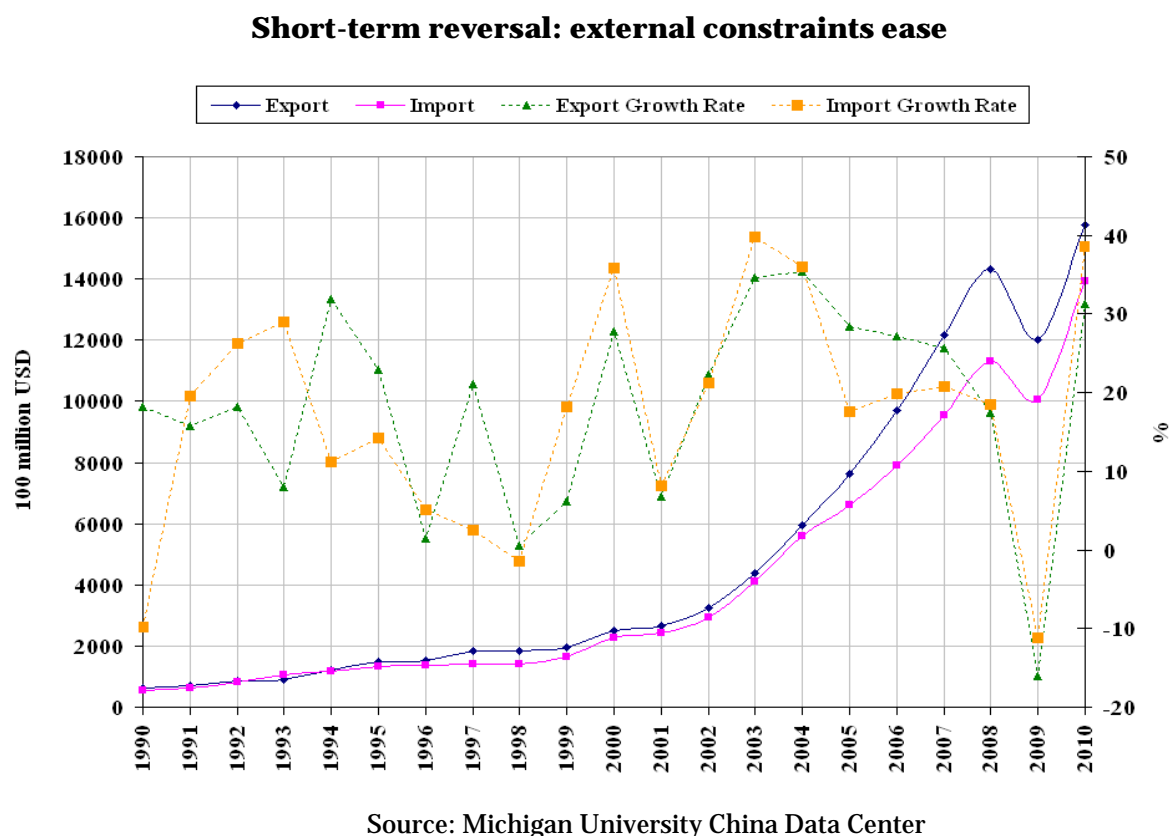
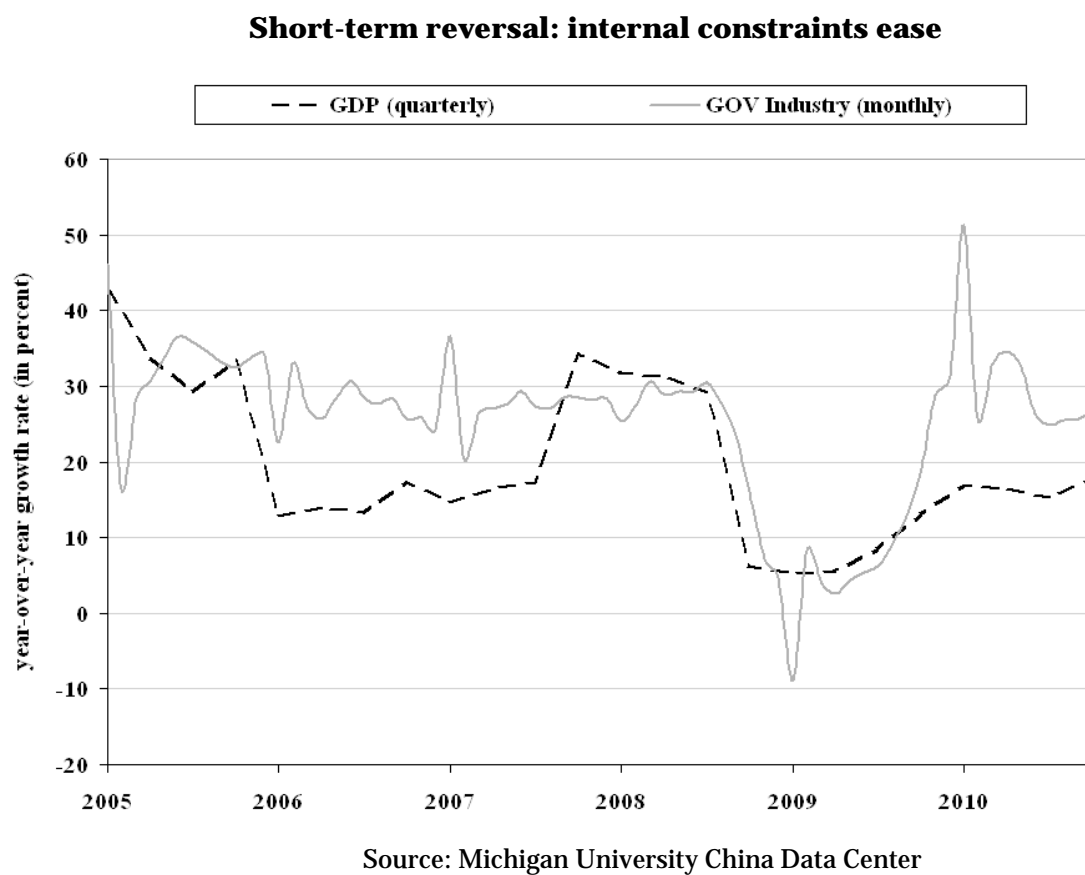


Figure 7.



Export and import and FDI continuously rise since 2009 (Figure 9). Exports grew slower than imports, 20.3 compared to 24.9 respectively in 2011 from the previous year (UMICH, NBS, 2012). Concerning its relative position globally, in 2009, China's FDI volume declined only by 2.6 while the drop worldwide was 39 percent (China Daily, July, 2010, referring to UNCTAD report, 2010). China remained the main destination of foreign investments. In 2011, FDI rose by 8.2 percent compared to the previous year (UMICH, NBS, 2012).

INTERNAL CONSEQUENCES OF EXTERNAL PRESSURES FOR ADAPTATION: THE STIMULUS PACKAGE

Reversal of the GDP decline was only partly due to revived export and renewed export incentives¹¹, and to the easing of the burdens of manufacturing enterprises. Nine industries were to receive national support including light industry, textile, steel, non-ferrous metal, automobile, petrochemical, ship-making, electronics and telecommunications (Chinawiew, 2008). Major role, however, was of the prompt central party and government reactions to crisis in the form of a 4 trillion yuan stimulus package and to its supporting fiscal policy measures to achieve fast results¹². This required the radical shift of former year's growth and inflation suppressing policies (Cai, 2011). The program was announced on the 9th of November, 2008¹³. The package amounted to 13 percent of the GDP in 2008 (Figure 8). Two-thirds of the investments however, were focusing on infrastructure building, including post-earthquake recovery and reconstruction, subsidized housing and public infrastructure¹⁴ that is, not directly in manufacturing.

¹¹ How Can China Keep on Growing While Exports are shrinking?
<http://blogs.worldbank.org/eastasiapacific/how-can-china-keep-on-growing-while-its-exports-are-shrinking>

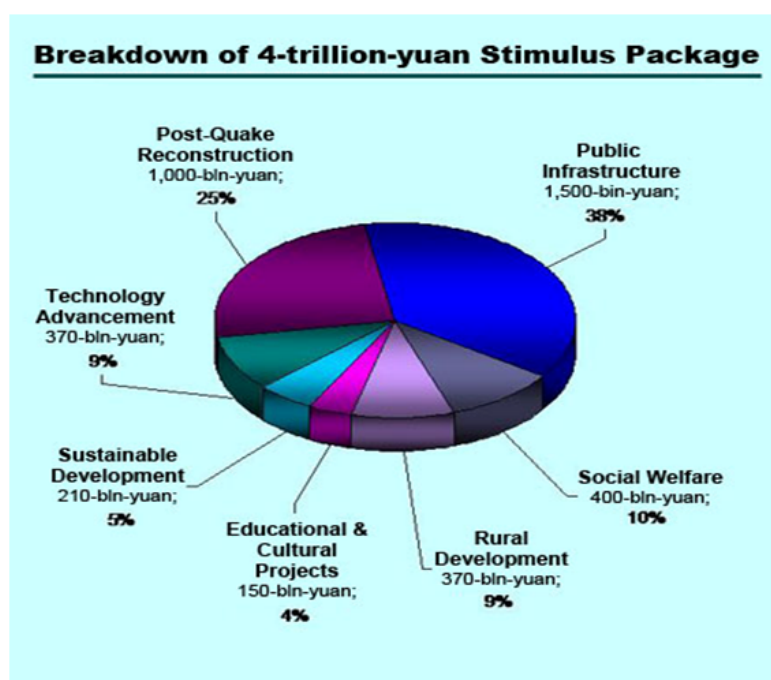
¹² Christine Wong cites the following financial policy means introduced in the second quarter of 2008: Interest rate cuts from September 2008; RMB 100 billion additional allocation for policy bank lending; Abolition of credit quotas for banks; General call to increase lending to support stimulus efforts; December 2008: nine-step plan for financial reform (New credit mechanisms for SMEs; Broader scope for issuing corporate bonds; New regulations for the creation of REITs and private equity funds); tax cuts Conversion from an investment-type VAT to a consumption-type VAT; Reduction of income tax on small firms; Reduction of excise tax on fuel-efficient cars, etc (Wong, 2011, slides 7-8)

¹³ http://en.wikipedia.org/wiki/Chinese_economic_stimulus_program

¹⁴ From systemic point of view we shall later see the importance of the fact that provision of infrastructure falls to the responsibility of local governments, forming about 70-75% of their budgetary expenditures on fixed investments (Wong, 2011, p. 9)

Figure 8.

4,000,000,000,000.00 CNY
 = 612,062,609,166.63 USD
 = GDP 13% (2008)

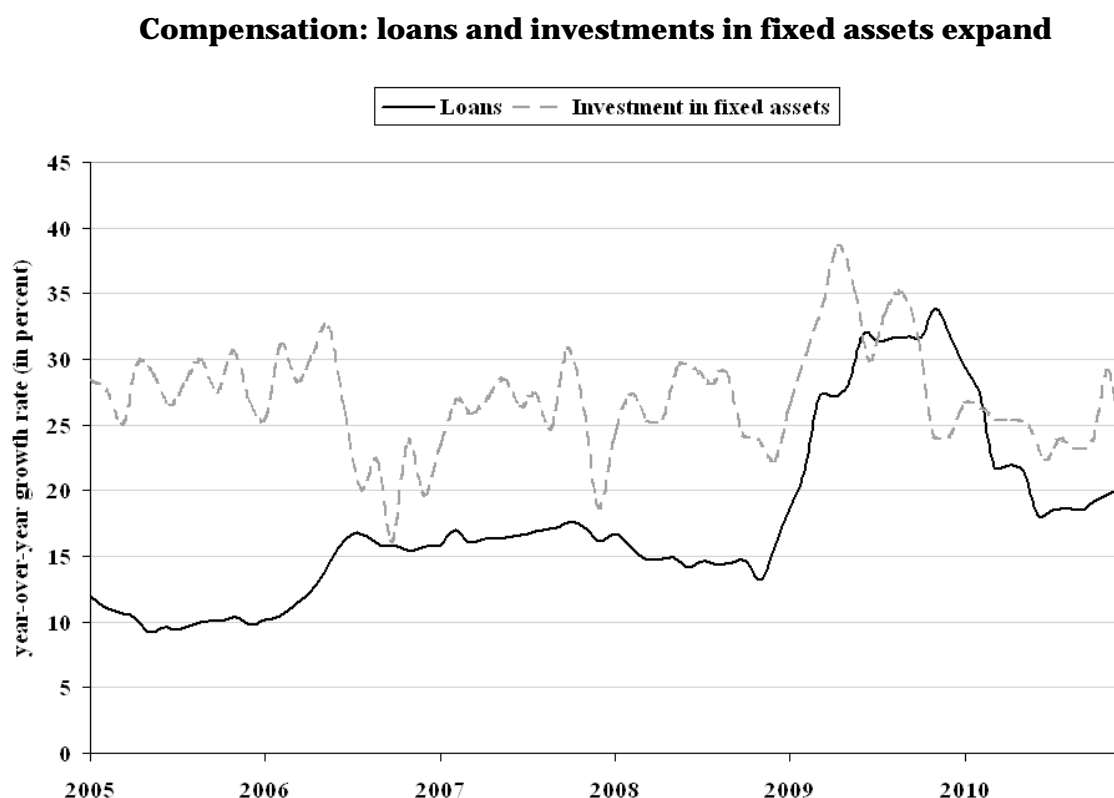


Source: Economic observer On-line
 eeo.com.cn China's Stimulus Package:
 A Breakdown of Spending. 2009.03.07

Originally, one third of the planned sum 1.18 trillion RMB was expected to be covered by central public investments while the remaining 2.8 RMB by local government or enterprises and banks starting from 2008 to 2010. Central sources were later increased by 36 percent (Wong, 2011, p. 7, 9). Central party- and state decision and supporting economic policy means stimulated high volumes of bank loans during the critical period and growth of investments in fixed assets (Figure 9)¹⁵. According to *CEIC World Bank estimates*, the dominant role of network expansion (both central and sub-national) is evident in the steep growth of governments' investment in fixed assets, compared to the decline of private investments (World Bank, 2010, Figure 2).

¹⁵ "Between November 2008 and June 2009, the money supply rose by 22%. This was accompanied by an even greater increase in credit. Initially, a significant part of the lending took the form of very short-term bills, which started to be converted into longer-term loans in the second half of 2009. Most of the loans were made to finance infrastructure projects under the control of local government urban development and infrastructure corporations (off-budget entities financed by the sale of land leases and user fees)." (OECD, 2009, p. 236)

Figure 9.



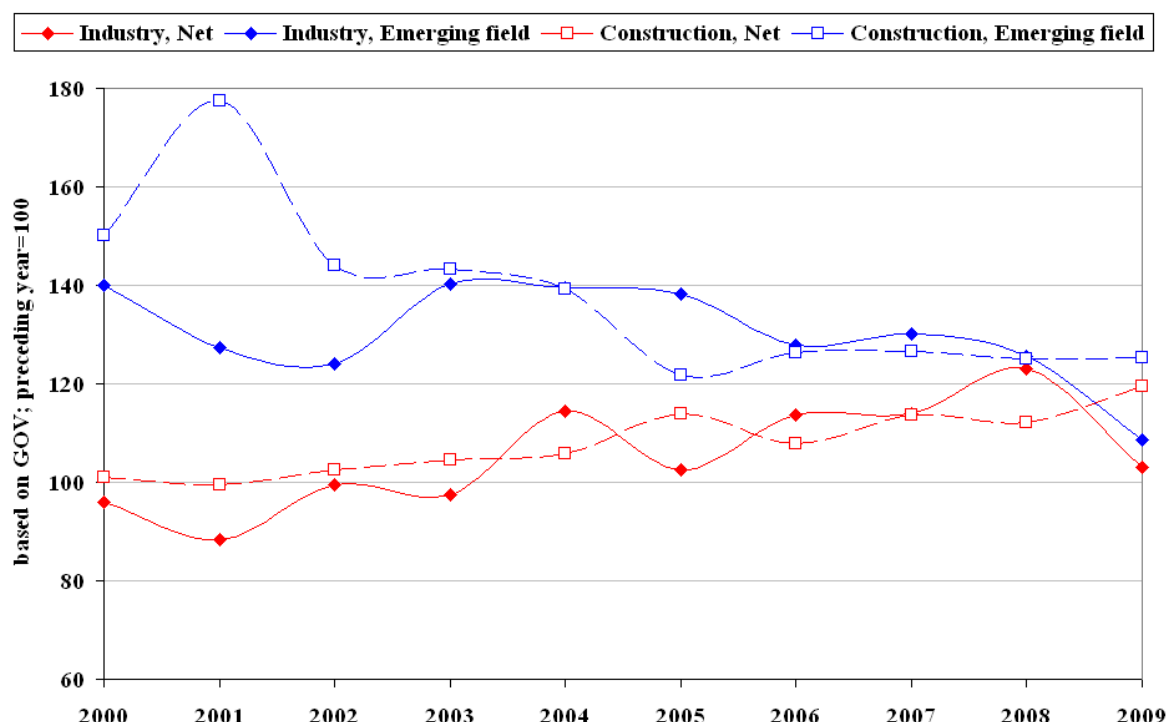
Source: Michigan University China Data Center

Let us analyze the impact of this preference towards the construction industry involving infrastructure from the point of view of transformation dynamics (Figure 10). First of all, what catches our sight is that expansion rate differentials between the market field and the network field in the construction industry continuously decreased since the year 2000, owing to the tendency of acceleration of the expansion of the latter and tendency of slow-down of the expansion of the market field. Second, the industry and construction sectors' dynamics compensate each other's acceleration or slow-down both considering the network field or the market field. Third, owing to the previous characteristics, compensation tendency stands for the dynamics of transformation as well. This is also true for 2009, as industrial transformation dynamics slows down by 2009, so does it accelerate in construction the same year with slightly faster growth of the market field. This means that slow-down in the transformation dynamics in the industry was compensated by the acceleration of the expansion in both fields in construction¹⁶. Meanwhile, the direction of the dynamics of relative retreat of the network remained unchanged, though less characteristic in its relative speed differentials.

¹⁶ "Fiscal stimulus translated into continued strong growth in infrastructure investment and has also boosted consumption. Housing sector activity has accelerated in recent months. The number of starts for both low-cost housing and market-priced units jumped in the third quarter, helped by easier

Figure 10.

Compensatory role of state intervention in construction: infrastructure building



Source: Michigan University China Data Center

Concluding the above, sectoral priorities and their impact should be considered when analyzing adaptation pressures and reactions to them even on the short term. Also longer-term impacts of these priorities should be analyzed both regarding the dynamics of system transformation and its spatial disparities and their consequences.

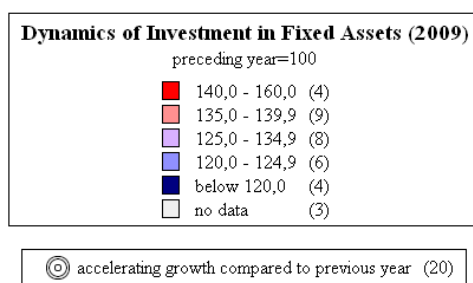
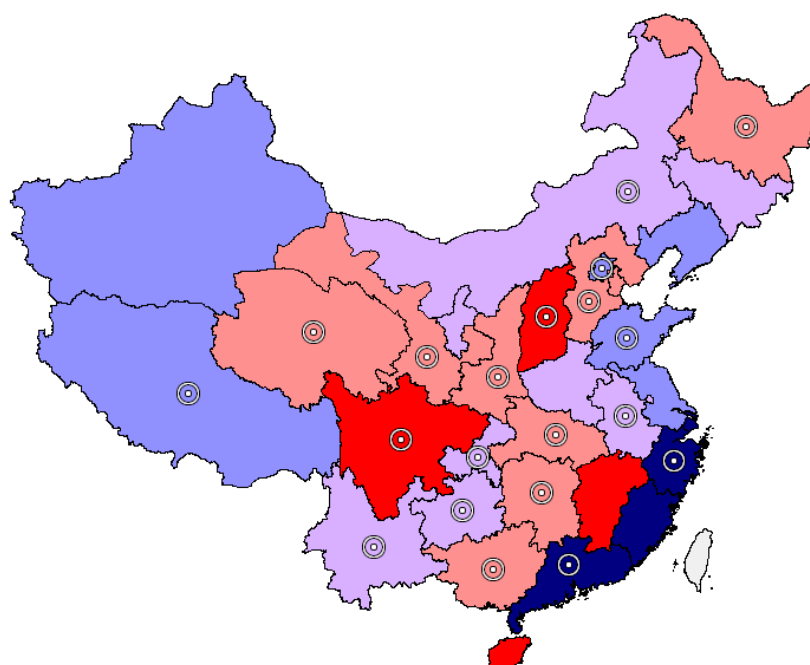
The impact of the crisis on manufacturing industry should not be examined in isolation but connected to the impact of the stimulus package that focused on construction. Next, we shall demonstrate that these sectoral priorities and their impact on the transformation may be detected also on regional level.

mortgage terms. House prices have started to increase again and competition for prime building sites is intense, with land-lease prices doubling in Beijing since last November. Housing is still affordable, however, outside of the major metropolitan areas. With strong domestic demand, import growth surged in the third quarter, which may also presage a continued recovery in exports given the high import content of Chinese exports. As a result, between the first and third quarters of 2009, the trade surplus fell by over 5 percentage points of GDP, to 2% of GDP." (OECD, 2009, p. 234)

SPATIAL CONSEQUENCES OF ADAPTATION TO EXTERNAL DYNAMICS

National level characteristics were not homogeneously reflected in space. Instead, spatial clusters of different dynamics may be perceived. This was true both regarding the investments in fixed assets, the FDI the GDP growth, and also in the spatial distribution of types of transformation dynamics. Colors on Map 3 show the different speed of grow regarding investments in fixed assets. They range from red towards blue reflecting the decline in the speed of growth. Little circles within provinces in non-blue colors are signs of acceleration in growth-rate in 2009/2008 compared that of 2008/2007. The same circles in provinces with blue colors mean the deceleration of decline. Based on that classification we may detect the faster development of the central and western provinces both compared to former years to the detriment of the four coastal provinces where we know that the highest was the share of the export in the GDP (Map 1) and thereby the sensitivity to the crisis. Statistical data also reveal that investments in fixed assets grew more rapidly in regions not directly attained by the crisis: in eastern, central and western regions in 2011 went up to 21.3, 28.8 and 29.2 percent respectively (UMICH, NBS, 2012).

Growth of investment in fixed assets: higher and accelerated at central-western regions

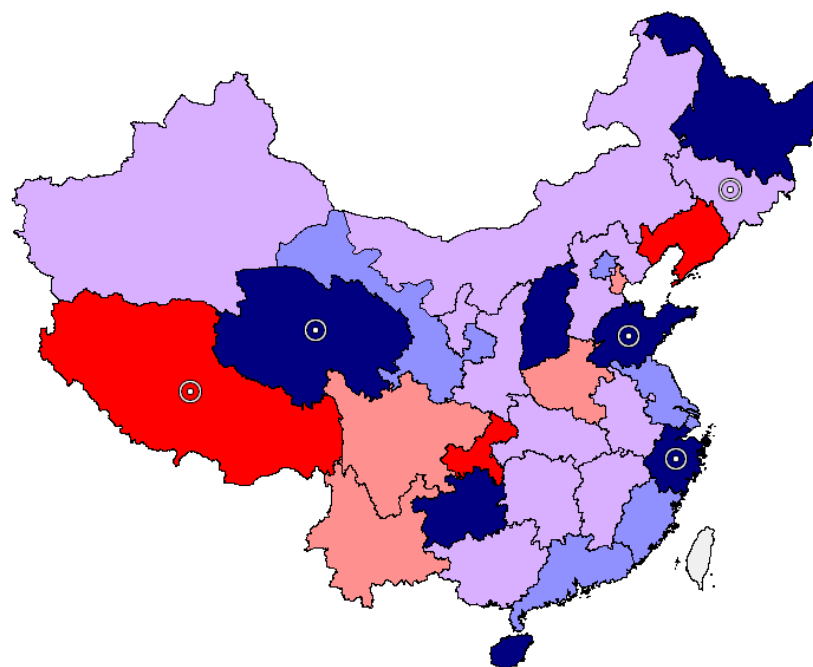


Source: Michigan University China Data Center

During the short period of the crisis a similar tendency is shown by the spatial distribution of FDI growth. Within China FDI was responsible for one third of the total growth of invested funds (20.3%) in 2011 (UMICH, NBS, 2012). FDI's higher growth propagated toward inland provinces instead of the previously preferred coastal provinces where the inflow of FDI stagnated or declined. Acceleration compared to the previous years occurred only in one western province, otherwise, in some scattered provinces throughout the country, deceleration or decline of FDI may be detected (Map 4)

Map 4.

**Distribution of FDI growth-rates: propagation to central-western regions,
while stagnation at the coastal regions**



Dynamics of FDI (2009)

preceding year=100

125,0 - 250,0	(3)
115,0 - 124,9	(4)
105,0 - 114,9	(11)
100,0 - 104,9	(6)
below 100,0	(7)
no data	(3)

⊙ accelerated growth compared to preceding year (5)

Source: Michigan University China Data Center

Changes in the spatial allocation growth of FDI and investments in fixed assets, and in the development of central and western provinces may be also detected in the changing migration routes of the rural-urban labor force. Modified routes increased their bargaining capacities in wages and living conditions influenced export structure and prices as well as the setting up of new and reallocation of older enterprises from east towards the west (Xu, 2010 August)¹⁷. However, we suppose that absorption of that migrant manpower in large masses on construction is needed only during the building period and not the operation of the infrastructure. At the same time, infrastructural investments are activating several sub-sectors of the manufacturing industries and both domestic and foreign enterprises. On the other hand, national and provincial level data suggest that state intervention that prioritized the network sphere and had spatial preferences toward the central and western regions activated the private sphere as well. Thus, labor force freed from temporary needs of infrastructure building might be later absorbed by the growing needs of the sectors activated by it.

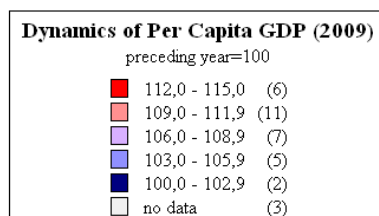
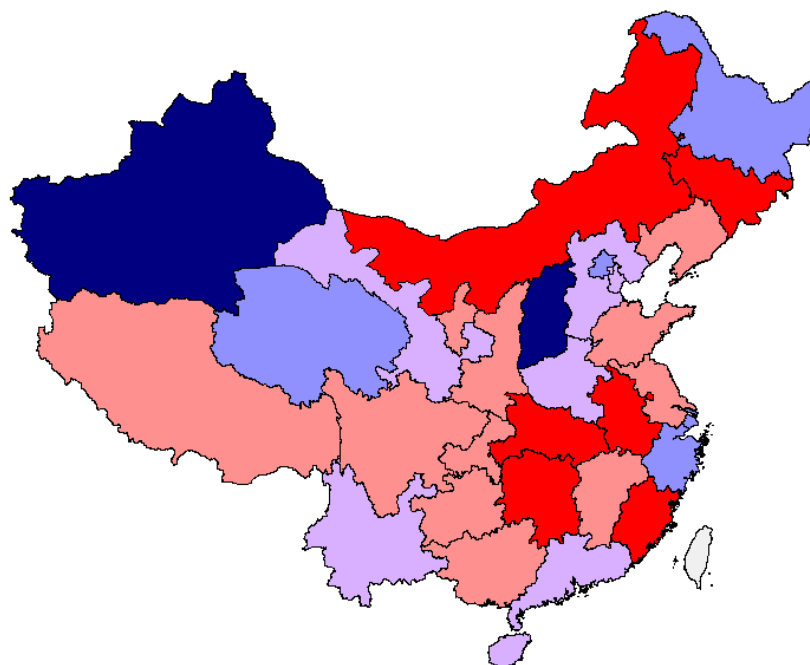
The clear tendencies in the spatial distribution of investment in fixed assets and FDI growth are not that explicitly reflected in the spatial distribution of the GDP/capita growth (Map 5). Regarding yearly data, despite the drastic but short crisis period with severe export drop, growth at coastal provinces were around the national average¹⁸ and only two of the provinces produced lower level GDP/capita during 2009 than in 2008. Still, we may experience overwhelmingly more frequent higher growth rates at central and western provinces.¹⁹

¹⁷ “According to an official survey, in 2009, the number of migrant workers in the East declined by 8.9 percent from the previous year while the number of migrant workers increased by more than 30 percent in the Central and Western regions. Shrinking regional wage difference, the higher income for rural residents, and the fast-rising cost of living in urban areas have reduced the incentive for workers in the interior provinces to migrate to the coastal area as well. The quick recovery of China’s exports since mid-2009 created a huge and sudden demand for a large number of young migrant workers in the coastal area, which could not be filled in the short term. Part of this labor shortage was caused by the temporary surge in demand for low-skilled manual labor from the investment-oriented stimulus package. Millions of new jobs generated from the infrastructure and construction sectors are mainly located in the interior provinces preferred by many young rural workers since they can be closer to home. The persistent labor shortage, combined with the economic recovery and inflationary pressure, had encouraged 27 provinces and cities to raise their minimum wage levels by this past July.” (Xu, 2010 August, p. 2 referring to Knight et al. 2010)

¹⁸ <http://www.exxun.com/China/ec.html>

¹⁹ “The GDP growth rate was 9.1 percent, comparing with 9.0 percent in 2008 and 13 percent in 2007. Given the severe drop in export – the contribution share of net exports of goods and services in GDP increment was -47.7 percent, the stimulus package aiming at stimulating domestic demand lifted the contribution share of final consumption expenditure to 53.1 percent and that of gross capital formation to 94.6 percent in 2009.” (Cai Fang, 2011 p. 5.)

Overwhelming growth of the GDP/cap at central-western regions



⊙ accelerated growth compared to preceding year (0)

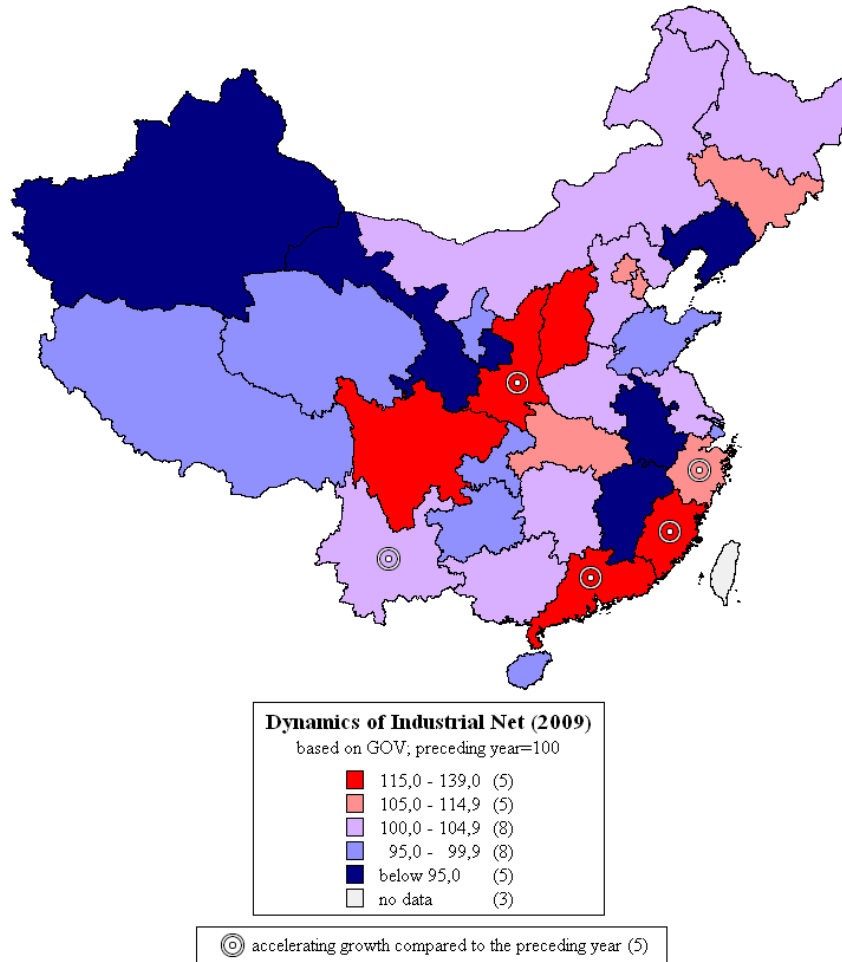
Source: Michigan University China Data Center

We suppose that timely central and local government intervention must have had a substantial role in these results. This supposition is supported by the similar tendencies that may be detected in the spatial disparities of the dynamics of the gross industrial output (GOV) of the economic units belonging to the network field (Map 6). Concerning the network field we may see two clusters of fastest growth: one in the coastal and the other in the west-central regions where government activity and network preference must have been the most intensive. Earlier news analysis (Csanádi, 2010) have suggested that at coastal provinces more local, while at west-central provinces more central government activities were registered within the network. One can also detect that accelerated expansion of the net compared to 2007 was more characteristic to coastal provinces where the crisis hit the most. Meanwhile, contraction was

experienced in several north-western provinces and at some provinces neighboring coastal provinces.

Map 6.

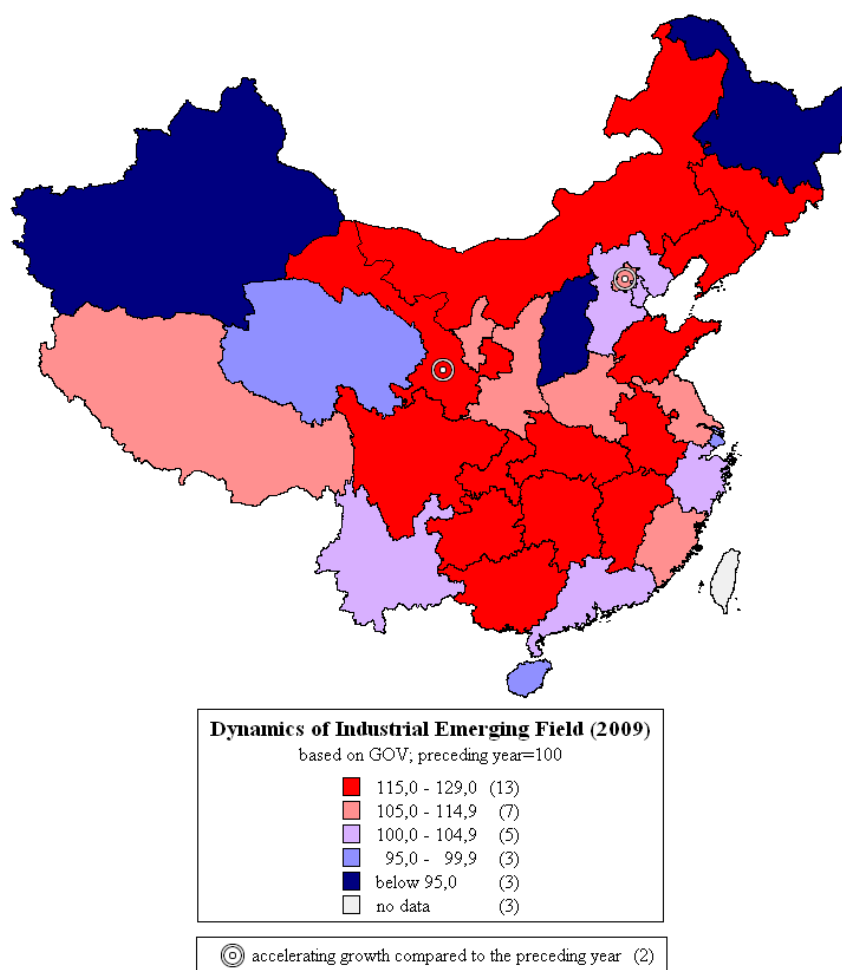
Spatial disparities in the dynamics of the network field in the industry



Source: Michigan University China Data Center

Looking at the dynamics of the emergent field's GOV in manufacturing (Map 7) it is clear that except for some heavy industrial provinces central and western regions boomed while most of the coastal provinces experienced a more modest growth. We may suggest that the impact of the crisis and government investment activity expanding the network field at central-western regions must have attracted the inflow of FDI and the relocation of economic units from the coastal region towards central western regions (Cai, 2010, p. 45). These processes have incited the expansion of the market sphere.

Spatial disparities in the dynamics of the emergent field in the industry



Source: Michigan University China Data Center

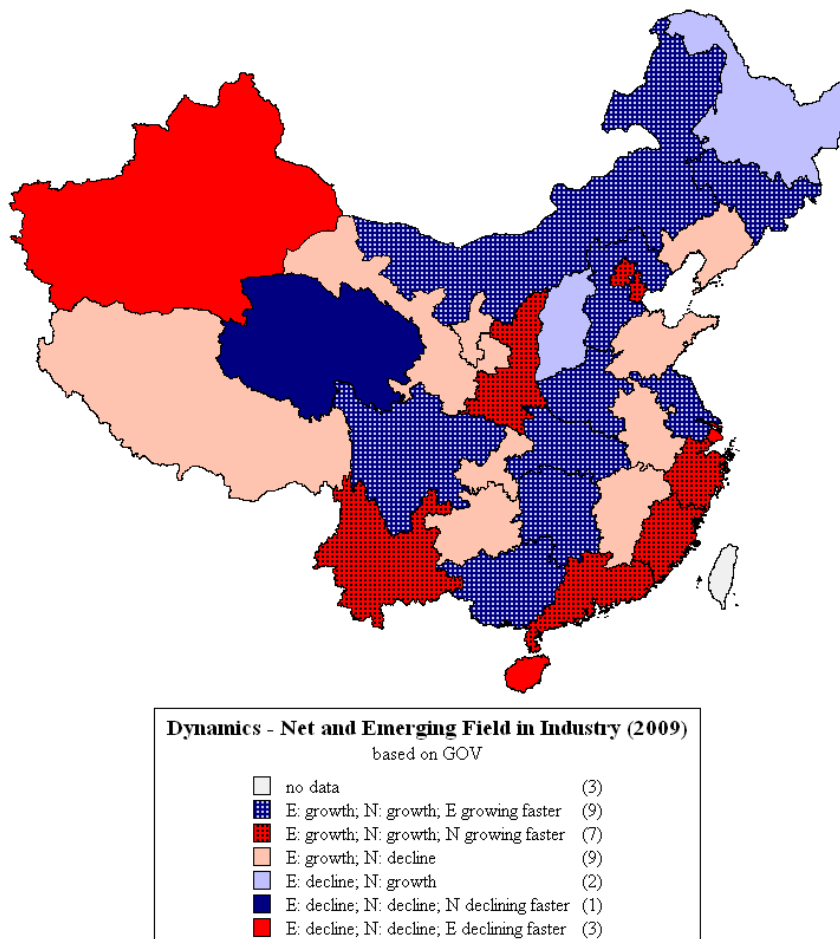
Spatial distribution of the dynamics of the two spheres has its respective consequences on the diversity of dynamics of transformation in the manufacturing industry (Map 8). The map shows the spatial distribution of the different types of transformation dynamics. Firstly, we may detect scattered and clustered distribution of the absolute retreat of the network where network field contracted while the market field expanded and thereby economic transformation took place. Secondly, we may experience a clear cluster of relative retreat from south-west to north. Thirdly, we may identify the slow-down of economic transformation at several coastal provinces that occurred due to the faster expansion of the network field than that of the emergent field.

Double contractions in manufacturing occurred in two provinces: one in Qinghai, where the network field declined faster than that of the market, the other in Xinjiang where the

private field declined faster than the network field. Interestingly enough, in both cases about the half of the population belongs to a national level minority and during the last years high level political conflicts occurred in both provinces. Locally increased adaptation pressures however provoked only short-term reactions: national level military and political intervention and segregation to hinder the propagation of conflict²⁰.

Map 8.

Spatial disparities of the dynamics of transformation in industry, 2009/2008



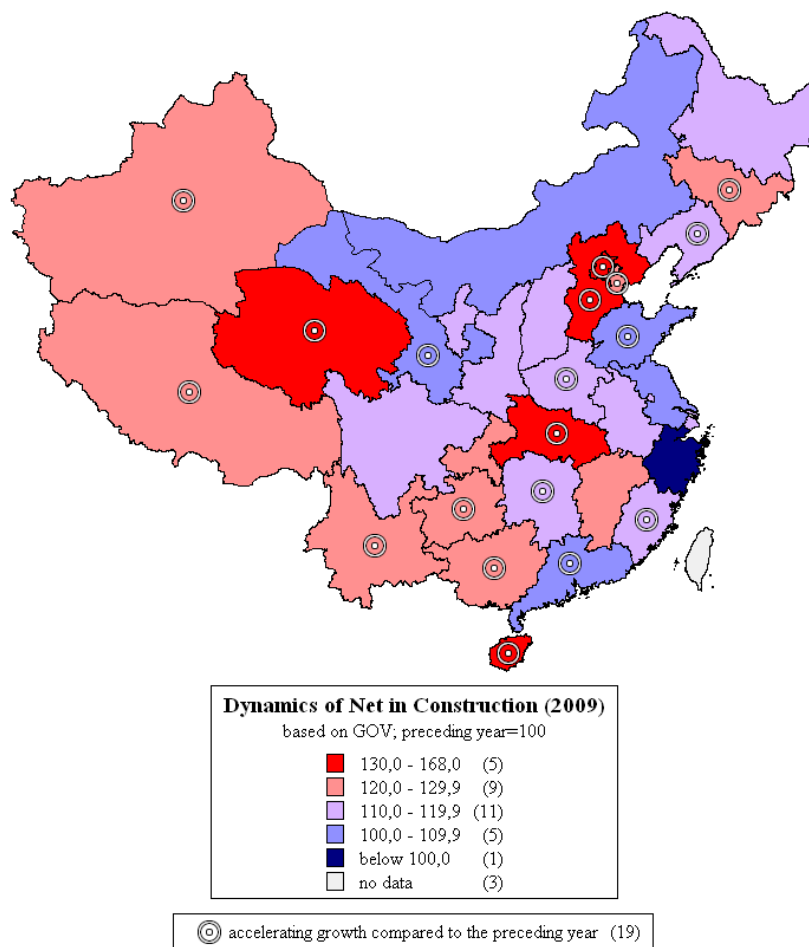
Source: Michigan University China Data Center

²⁰ Examples in the literature are (a) Tibetan Exiles, Chinese Authorities Report on Unrest in Qinghai, April 30, 2008 <http://www.voanews.com/english/news/a-13-2008-04-30-voa9-66816592.html>
China riots: 300 Uighurs stage fresh protest in Urumqi 10 Jun 2011
<http://www.telegraph.co.uk/news/worldnews/asia/china/8572680/Migrant-workers-in-China-attack-police-in-third-day-of-riots.html>
(b) Timeline: Xinjinag unrest. Ethnic violence has erupted in China's western region of Xinjiang, with scores of people being killed and hundreds injured. Friday, 10 July 2009 <http://news.bbc.co.uk/2/hi/asia-pacific/8138866.stm>

How does this picture change if we considered the construction industry that was the main focus of the stimulus plan? Spatial disparities in the distribution of network dynamics in the construction industry clearly show the spatial preferences of the state action (Map 9). Hightened expansion is spreading towards the central and western regions with overwhelmingly stagnation, slow growth or contraction at coastal region. This latter is experienced only in one province nationwide. Accelerated expansion compared to 2007-2008 is visible from south to north and east to west. Spatial distribution of network expansion in construction industry seems to compensate the tendencies of the network in the industrial sector. This finding matches the national level tendencies shown in Figure 9.

Map 9.

Dynamics of the net in construction – spatial compensation

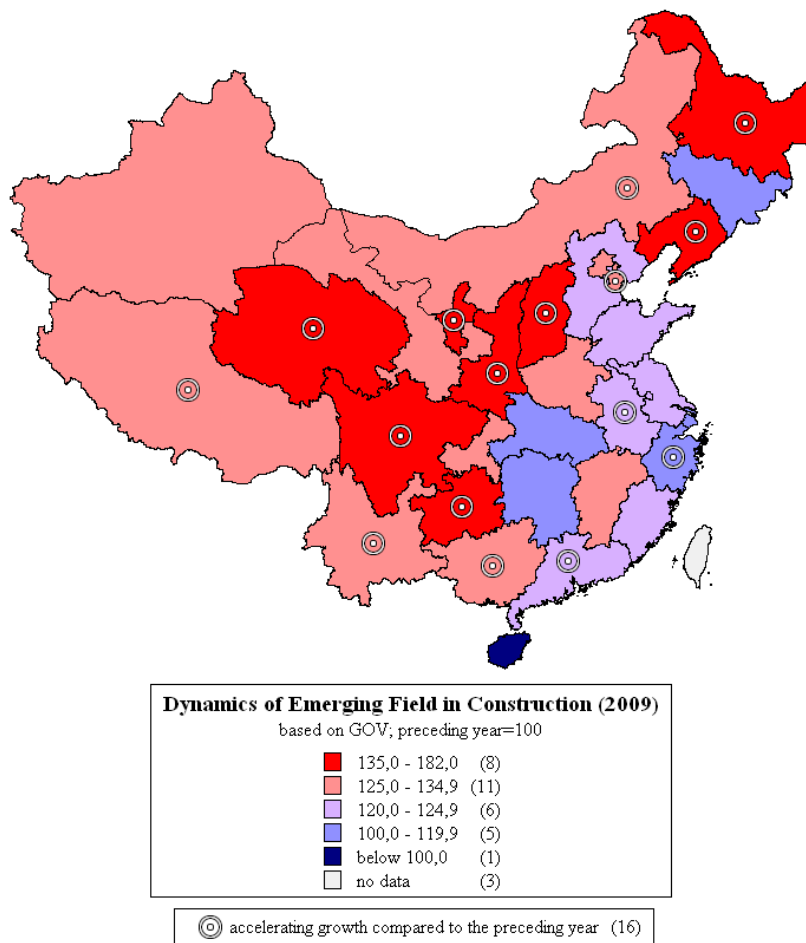


Source: Michigan University China Data Center

Map 10 demonstrates the multiplicative effect and attracting capacity of the government activities on private ventures in the construction industry. Distribution of the dynamics of the emergent field involves similar spatial distribution and acceleration characteristics as that of the network field. However, direction of growth towards the central and western regions is more accentuated and the speed of expansion is even higher than that of the network field.

Map 10.

Dynamics of the emergent field in construction



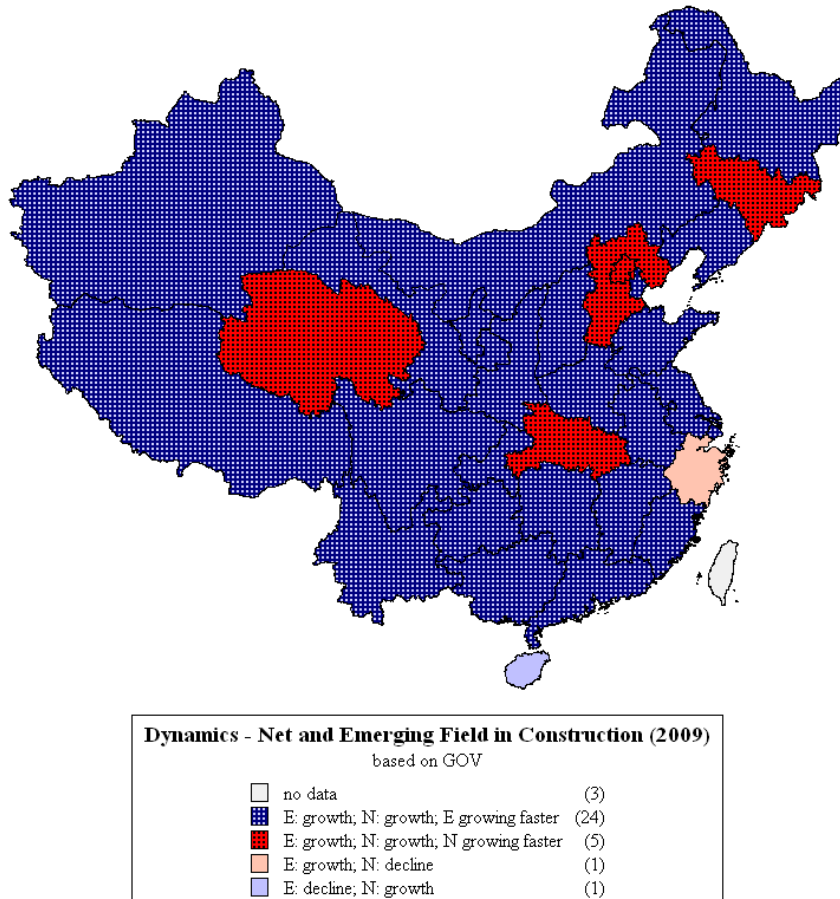
Source: Michigan University China Data Center

As a result of the dynamics of the network and emergent field, spatial characteristics of transformation dynamics in the construction sector in 2009 showed an almost homogeneous picture of relative retreat of the network owing to the faster expansion of the emergent field compared to that of the network field (Map 11). Thus it looks like that government activity in the network field induced the overwhelmingly higher activity of the private sphere contributing to the accelerated transformation of this subfield. It is worth to mention that Qinghai is one of the provinces where slow-down due to faster expansion of the network in construction might

have been a strategy to compensate double contraction in manufacturing. The dynamics of transformation in the construction industry does not contain any double contraction.

Map 11.

Dynamics of transformation in construction



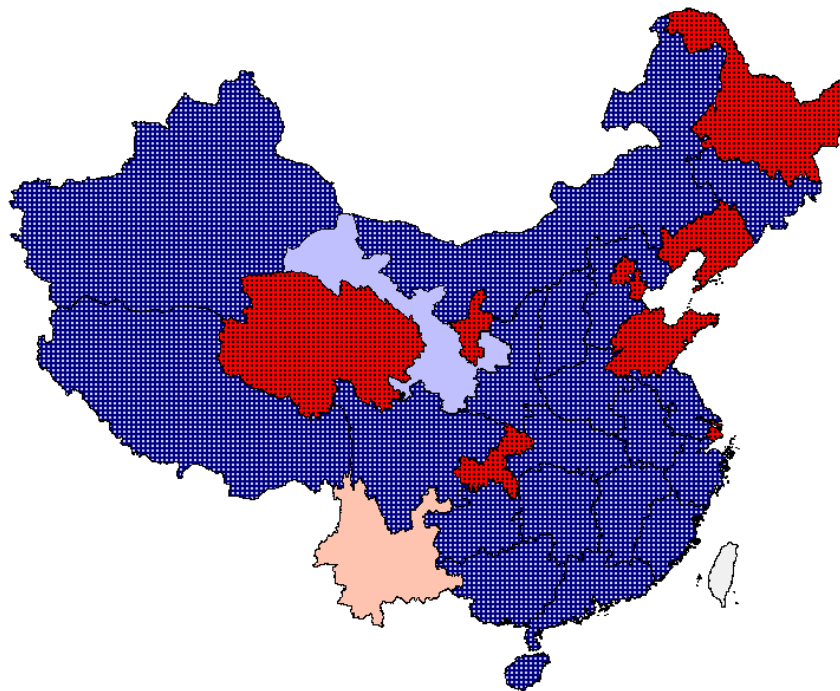
Source: Michigan University China Data Center






Compensatory role of the construction sector to industrial dynamics is even more accentuated if we compare the transformation dynamics of the two sectors in 2008 and in 2009. Opposite tendencies may be traced in the spatial characteristics of the changes in transformation dynamics regarding manufacturing and construction compared to those of the previous year. In the manufacturing sector, the almost homogeneous picture of relative retreat in 2008 owing to the faster growth of the emergent field became much more diversified by 2009. Oppositely, construction industry shows a more diversified picture in 2008 compared to that of 2009. This diversity is due to the slow-down of transformation in the west in 2008 as a result of faster network expansion, and the relative retreat of the network at coastal and central provinces. This picture becomes more homogeneous in 2009 owing to the mobilized market

field also in the western regions by pre-empted network expansion. (Map 12 and Map 13). It is worth to mention that Qinghai is among those exeptions where slow-down of transformation due to faster network expansion occurred already the second year in the case of construction

Map12.

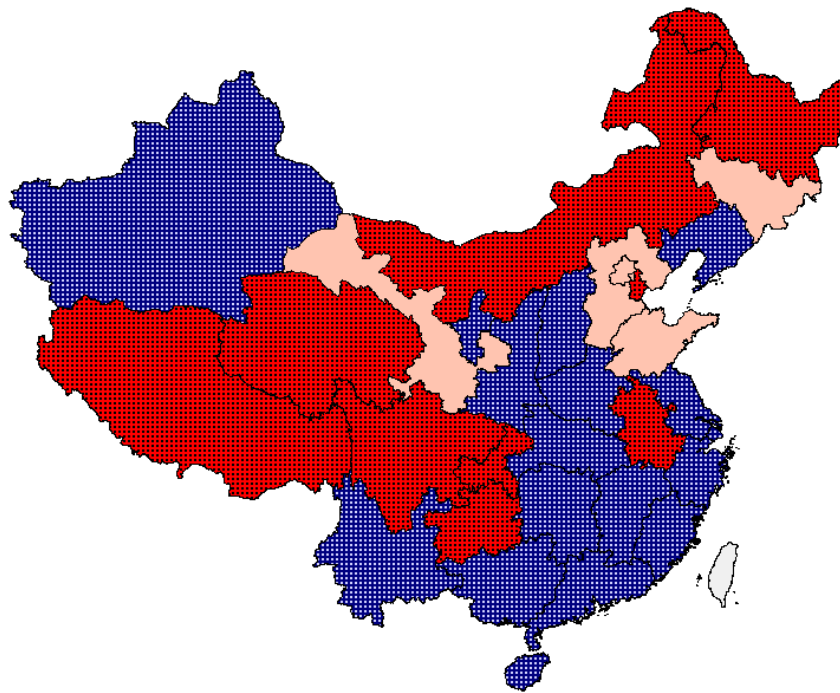
Relative retreat of the net in the manufacturing due to faster expansion of the market field in 2008/2007



Dynamics - Net and Emerging Field in Industry (2008)		
based on GOV		
	no data	(3)
	E: growth, N: growth, E growing faster	(20)
	E: growth, N: growth, N growing faster	(9)
	E: growth, N: decline	(1)
	E: decline, N: growth	(1)

Source: Michigan University China Data Center

Slow-down of transformation in the west in the construction industry due to faster network expansion, 2008/2007



Dynamics - Net and Emerging Field in Construction (2008)		
based on GOV		
	no data	(3)
	E: growth, N: growth, E growing faster	(17)
	E: growth, N: growth, N growing faster	(9)
	E: growth, N: decline	(5)

Source: Michigan University China Data Center

Concluding the above, not only national level, and sectoral level should be considered regarding external and internal adaptation pressures and reactions, but also spatial disparities. Spatial dynamics in construction compensated spatial dynamics in manufacture from 2008 to 2009. Spatial priorities of state intervention towards central and western regions are visible in construction industry, while eastern and central preferences in network expansion may be detected in the expansion of the network field. In both cases expansion of the network field dynamized the expansion of the emerging field. Spatial dynamics in construction and industry changed oppositely in time. Spatially homogeneous distribution of relative retreat of the network in the transformation of the construction industry was pre-empted by a spatially clustered slowdown of transformation due to network expansion in the central and western regions in 2007-2008. Oppositely, the overwhelmingly spacially homogeneous picture of relative retreat in the manufacturing industry in 2007-2008 turned into various types of transformation dynamics in the crisis period with relative slow-down in the east, absolute

retreat in the provinces attached to eastern provinces, relative retreat in the central regions and all types scattered in the west demonstrating the different consequences of external and internal adaptation pressures.

STRUCTURAL CONSEQUENCES OF ADAPTATION

However, compensatory impact of the stimulus package and within that the focus on construction was much more complex, both structurally and spatially. Complexity arises owing to the fact that in several dimensions the focus of the crisis and the priorities of the stimulus package did not match (Table 5). We have analyzed in detail the spatial mismatch: the crisis hit the coastal regions meanwhile the stimulus package was oriented overwhelmingly towards the central-western regions. Sectoral mismatch is also clear: while the crisis hit in the manufacturing sector, the package's main priority was the infrastructure building. The mismatch is evident also in trade orientation: the crisis hit the export, while the goal of the package was to increase the domestic consumption. Mismatch may be revealed also regarding enterprise size: the crisis attained overwhelmingly small and medium sized enterprises while the focus of the package was on large enterprises. Also ownership preferences did not overlap: the crisis drastically shook the private enterprises while the stimulus package focused on state owned enterprises. From this follows the mismatch regarding the affiliation: overwhelmingly foreign enterprises closed down as a result of the crisis while the package's preferences were domestic enterprises.

Table 5.

Mismatch of state intervention and crisis impact

Mismatch	Crisis direct impact	Stimulus plan direct impact
In location	Coastal	Central and western
Priority sectors	Manufacturing	Infrastructural
Trade orientation	Export	Domestic
Participant ownership	Private	State owned
Enterprise size	SME	Large
Affiliation	Foreign	Domestic

Source: Compiled by the author from different documents and data

The focus mismatch of crisis and government intervention had multiple structural consequences in multiple dimensions so far detected in the previous pages of this paper

- ❑ Regional focus of state intervention tended to decrease spatial disparities of development, diverted migration routes created labor shortage in the east and later also in the central and western regions) and thereby increased workers' bargaining capacities in labor market²¹
- ❑ Sectoral focus of state intervention in infrastructure compensated the decline in manufacturing and also mobilized these latter: growth of internal demand activated other sectors and potentially decreased the extent of export dependency
- ❑ Ownership focus of state intervention expanded the state sphere but also activized the market sphere
- ❑ Scale focus of state intervention on large enterprises also activized SMEs overwhelmingly located in the private sphere

ADAPTATION HEATS UP SYSTEM-SPECIFIC CHARACTERISTICS

External and internal adaptation pressures had not only national, sectoral, spatial and structural impacts but also system-specific consequences. One can clearly detect the mobilization of system characteristics of party-states: *the political rationality of economic behavior in state intervention, in the drive for growth and in selective allocation of resources*, as a systemic reaction to the crisis.

First of all, due to state intervention and economic policy and fiscal measures, reproduction of the whole system became temporary soft with the deployment of huge government sources and loosened supporting fiscal policy measures. Actors within the party-state network and thereby power relationships were mobilized throughout the whole structure, from central to local levels during the economic decision-making process. Central ministries, local governments, banks and enterprises were engaged in bargaining for resources through the network (Wong, 2011, p. 13). Power relationships and bargaining power of actors and politically rational concerns both in the distribution and drive for growth played a crucial role in development drives and in the allocation of resources.

- ❑ As a result, according to Wong's calculations, the volume of the investment expenditures during the 27 month of the implementation of the package, reached RMB 9.5 trillion. This amount was 27 percent of GDP, 2.4 times the size of the announced stimulus package. (Wong, 2011, p. 13). In 2009, the growth of gross capital formation was responsible for 8

²¹ The situation became even more acute in February 2010 when migrant workers, who headed for their inland hometowns for the Chinese New Year holiday, did not return to work. (Xu, 2010, p. 1)

percent of the GDP growth, and formed 96 percent of the GDP, double as much as in 2003-2007 (Wong, p. 16). The share of fixed asset investment was nearly 70% of the GDP in 2010, (New York Times, July 2011). Investments continued to grow in 2011, after the planned completion of the stimulus package in 2010. Investment by domestic enterprises grew the most, it went up to 24.7 percent; those from Hong Kong, Macao and Taiwan by 19.9 and those by foreign funds by 12.0 percent (UMICH, NBS, 2012).

System characteristics of politically rational selectivity in the allocation of resources according to size and state ownership became more accentuated²². Central government shouldered the risk of loan for SOEs and governments. The biggest winners from China's economic stimulus package so far have been domestic Chinese companies, particularly state owned enterprises (SOE) whose combined investment has increased by 40.6% year-to-date over the same period in 2008 (Luk'yanenko, 2011)²³

Within general system characteristics also Chinese pattern specifics may be revealed. The decentralized character of this power network in China, on the one hand, allows for the capacities to extract and distribute resources at local levels, combined with the general characteristics of politically rational economic behavior in the drive for growth and selection. Specifics on the other hand, allow for the increase of resisting capacity against unfavorable state interventions. General and specific traits of the system brought about local rush for local development. Local governments shouldered the risk of loan for locally founded financial vehicles for infrastructure projects, land used as collateral government guarantee.²⁴

□ Thus, National Audit Office's recently released figures show that the local governments had amassed 10.7 trillion yuan (\$1.65 trillion) in debt as of the end of December, amounting to 26.9% of GDP in 2010. Of this debt, local governments are explicitly responsible for repaying 62.6%, have guaranteed 21.8%, and are required to partially repay 15.6%. (URBANOMICS, 2011).

²² This selective preference is valid both in the central and local distribution of resources but also in the the selective chances of economic units investing abroad „... Most of these Chinese firms are state-owned or “national” (中央企业, *Zhongyang qiye*) enterprises, as distinct from so-called private firms (民营企业, *minyin qiye*). They include not only businesses engaged in strategic sectors directly accountable to the central government, but also businesses belonging to local and provincial authorities and even partially privatised firms in which the state remains a majority shareholder or nominal owner. In this respect, the state enterprises occupy a quite unique position in China's economic landscape and global development strategy... state enterprises have never before experienced such a remarkable rate of expansion, either nationally or internationally.” (ECFR, 2010, p. 4)

²³ “State enterprises enjoy extensive privileges: they have special access to sources of credit, a strong bargaining position over industrial prices and the right to make legislative proposals; they are not obliged to share profits and often enjoy lower taxation levels. Given these privileges, it is not clear to what extent they are really profitable - it is said, for example, that the reconstruction and proposed international expansion of state enterprises will cost 100 billion yuan.” ECFR, 2010, p. 5)

²⁴ Owing to facilitated conditions and the drive for growth, “Within less than a month of the announcement of the stimulus package, local governments, in aggregate, had proposed a staggering total of RMB 18 trillion in investment projects. Soon after, the figure rose further to RMB 25 trillion for the first 18 provinces reporting their plans” (Wong, 2011, p. 12-13).

- ❑ Local banks' nested in local networks gave risky loans for governments through local financial vehicles, that are off-balance sheet corporations created by governments, who are otherwise forbidden to borrow from banks, to finance infrastructural investments through bank loans. Loans through such corporations fulfill government development strategies off budget. Loans by such corporations are estimated to 30 to 46.4 percent of total outstanding loans by the end of 2010 by different Chinese authorities (Chinastakes, July, 2011; Wong, 2011, p. 19; Tsui, 2011). Development drives through loans to local financial vehicles has lead to excess land sellings and budgetary commitments by local government as collaterals and fiscal guarantees.²⁵

The political rationality of economic behavior in the drive for growth and lack of efficiency concerns in the process of self-reproduction leads to:

- ❑ Uncontrollable and exploding loan supply: Credit growth was 18% annually over 2008 and 2009 (Bloomberg, 2011). In 2009, new lending more than doubled from the 2008 level, to RMB 9.6 trillion. In the first quarter alone it expanded by RMB 4.6 trillion (Wong, 2011, p. 16). According to numbers compiled from the 2010 4th quarter of Monetary Policy Report, in 2010 total debt was 74 of the GDP (ALSOSPRACH, 2011). Lending limits were exceeded in 2010 and are likely to be exceeded in 2011 too, despite repeated government measures to contain it. Requests of the China Banking Regulatory Commission for stress tests were ignored or results of simulations were de-emphacised by large banks (Zarathustra, 2011).
- ❑ Reviving non-performing loans are likely to result from a combination of 2009-10 stimulus loans going bad, decreased demand for exports, and severe overcapacity in domestic markets downgrading prices in chemical, steel and cement industries. Non performing loans are judged up to 8-10 (Fitch in BBC, 2011) or 12 percent (Moody in URBANOMICS, 2011) of total loans, forecasting 60 percent of risk for banking crisis by mid 2013 in the aftermath of record lending and increasing property prices ²⁶
- ❑ Interest rates were raised several times to slow-down lendings that contributes to inflation that was up to 4.4 in July 2011 compared to the government projected 3 percent

²⁵ „Nationwide, the CBRC reported that 47 percent of all LIC debt were guaranteed by fiscal revenues, and it classified 26 percent of LIC debt as “high risk” at mid-year 2010”(GaveKal, DragonWeek, Nov 8, 2010, in Wong, 2011, p. 12)

²⁶ An expert analyst does not take these tendencies as risky. Though it refers to 35% of all loans as potentially non-performing does not see this as a destabilizing factor, referring to China's huge foreign reserves and limited international indebtedness and modest budget deficit. Moreover, since combined net income of the banking sector rose by 35% in 2010, the expert judges that bank reserves make non performing loans manageable. For avoiding local banking crisis, another instrument, called an inter-bank loan system was introduced in autumn 2010 by the central government. Owing to this regulation, part of the non-perforning loans given to local governments may be transferred to larger banks at generous prices owing to political pressure on larger banks. Thus, according to some experts, central measures, as government injections in the public sector, issue of government bonds, creation of central financial vehicles to buy bad debts may be implemented without major harm to the economy and the system. (Exclusive Analysis, 2011, p. 4-8).

(URBANOMICS, 2011 July). The consumer price index in the average of the first eleven months of 2011 went up by 5.5 percent year-on-year (UMICH, NBS, 2012). Upward pressure persists on property prices risking asset bubble despite of radical countering government measures since early 2010 (Exclusive Analysis, 2011, p. 5)

Based on the above, we may argue that at the stimuli of state intervention reacting to external and internal adaptation pressures, system characteristics were suddenly mobilized through softened self-reproduction of the system. Softness of self-reproduction of the system was created through large resource injection oriented to the expansion of the network. Mobilized system characteristics of politically rational economic behavior of actors, combined with the specific features of the Chinese power structure inadvertently resulted in the overheating of the economy.

However, not only the specifics of the structure but also the dynamics of its transformation, owing to the same structural specifics, contributed to the overheating. During the last two decades of reforms the transformation of the economic sub-field gradually created an expanded market field. The temporary faster network expansion to the detriment of the emergent sphere due to the preferences of state intervention was quickly followed and frequently overridden by the mobilized market activity both on national, spatial and sectoral dimensions, recuperating its former speed. Overheating, in turn leads to renewed central drive to cool it down through restrictions.

- ❑ Restriction efforts are visible already from early 2010, when monetary and fiscal tightening measures were deployed: the central bank raised discount rate by four basis points, raised reserve ratio, repurchased bonds with faint effect on the pace of lending. Emergency measures were adopted: credit quotas enforced, but off-balance sheet financial products more than doubled and credit expansion in 2010 stayed roughly at the previous year's level (Wong, 2011, p. 18). Central authorities cracked down on lending by financial trusts, constrained the activity of local financial vehicles, stricened conditions of house building from constuction and consumer side etc. As a result of restrictions, in 2011, central investments fell by 9.7 percent. However, despite central efforts to curb overheating, in 2011 local investments continued to grow, were up by 27.2 percent (UMICH, NBS, 2012). The result of central efforts may be detected also in the substantially slower growth of government budgetary funds (10.8 percent) and loans (3.5 percent) compared to that of all investment funds (20.3), while to the growth of less controlable self-raised funds grew by 28.6 percent (UMICH, NBS, 2012).

CONCLUSIONS

Global downturn in 2008 exerted strong external adaptation pressures on China. The subject of the analysis was the sensitivity of the Chinese party-state system to the pressure exerted by external dynamics. Our approach was based on the theoretical cornerpoints of an analytical model (Csanádi, 2006, 2011) that describes self-similarities and individual specifics of the structure, operation and transformation of party-states. We hypothesized an indirect relationship between global dynamics and the direction and speed of transformation and party legitimacy. We argued that as global growth accelerated economic transformation and preserved party legitimacy in China until 2007, so might global decline decelerate economic transformation and by decreasing party legitimacy, lead to the evolution of the preconditions of political transformation.

Our hypothesis was only partially supported by the developments. Adaptation pressures incited prompt state intervention in the form of a large stimulus package. On the short term, the one-off large state intervention had, successfully mobilized alternative resources at different levels, different regions, sectors, structures, unit scales and ownership and had a positive impact on the system's stability and party legitimacy.

In order to quantify system transformation we have introduced the concept of „transformation dynamics“. With this latter we could roughly detect the direction and speed of expansion and contraction of the state-owned field and market field relative to each other both at national and provincial levels and in different sectors during global decline. In this respect we have detected the compensatory role of the construction industry with respect to the temporary decline of the manufacture hit by the crisis. Data have also shown that in space there is an overall higher speed of the market sphere compared to the state owned field in the construction industry, compared to the concentration of this similar type of dynamics to the central and western regions in the manufacturing.

Owing to system specifics, state intervention however also mobilized the general characteristics of party-state systems, as well the specific characteristics of the Chinese party-state network. Prompt and substantial intervention in the economy was possible owing to China's large amount of fiscal reserves. Consequently, due to constraints hard from outside but soft from inside, the direction of transformation dynamics did not change despite the slow-down of economic growth. State intervention through the temporary slow-down of transformation contributed to the preservation of political legitimacy. Temporary character of pressures suggests the reversibility of the speed of dynamics of economic transformation on the short run, depending on the development of external and internal factors. We have acknowledged that time-span of prevailing external and internal adaptation pressures also

matters. Global crisis indeed generated pressures on system transformation in late 2008 and early 2009. The crisis however was short-term, thus critical adaptation pressures and adaptations were aquin.

On the short run, systemic adaptation to the impact of external crisis has mobilized general system characteristics of party-states (political rationality of economic behavior in the drive for growth and in the selection for resource allocation) and its specific Chinese feature (decentralized power distribution within the economic sub-sphere of the network). These were combined with the specifics of the transforming Chinese economic subfield, deriving from the Chinese pattern specifics. While both system characteristics inadvertently lead to the overheating of the economy, this process was further energized by the contribution of the emerging private field acivized by investments of the netwok field through state intervention. Systemic and market overheating together has lead to a renewed cooling down cycle.

Since external pressures prevail still in 2011 owing to persistent global downturn and growing pressure of the US on China to adjust exchange rate²⁷ while internally, contraction persists in the form of restrenchment, the question emerges: would the presently evolving double pressure point to longer-term potential contraction?

²⁷ “For if the People’s Bank of China were to raise its leading rates before the Fed, this could result in massive inflows of capital that would destabilise the economy still further through pressure on exchange rates, increased dependence of the economy on foreign investments, and overheating. It is therefore difficult for China to take the initiative.” (ECFR, 2010, p. 4)

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