

# **Economic growth, spatial disparities and FDI inflow in China**

## **Final report**

### **Abstract:**

During the period of research we have taken both new theoretical and empirical steps and we have also created the foundations of a further empirical research in China. Theoretically: we have completed the theoretical basis of the transformation of party-states and the structural background of their disparities, further developing our IPS model that described the structure and operation of party-states. Empirically: in order to test the functioning of the model empirically we have focused on the specifics of the Chinese transformation and its spatial disparities. We have prepared several pre-studies concentrating on the most important elements of the Chinese transformation. such were: the possibilities of quantification of the transformation using statistical data analysis, using the operationalized terms of the model; foreign direct investments and its spatial disparities; migration and income disparities; the impact of global recession on the preconditions of political transformation; reactions to short-term external and internal adaptation pressures on the system and its spatial disparities. We have also started the preparation of a new empirical research supported by OTKA on the long-term effects of a short-term state intervention and its spatial consequences: the stimulus package introduced in 2008. During consultations and presentations in China we have developed research collaboration with several research institutes that are the preconditions of any empirical research in China.

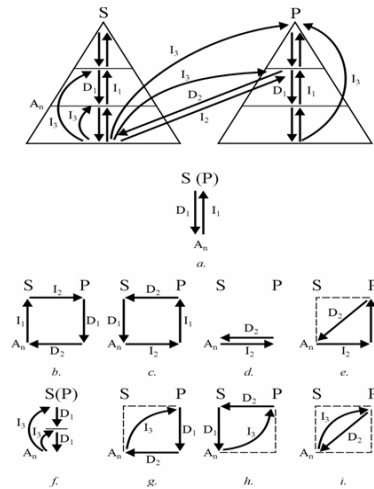
### **Detailed account:**

#### *I. Theoretical results of the research period on system transformation:*

Our theoretical project that targeted the further development of the Interactive Party-State (IPS) model has been finished. The theoretical chapter is being published in the discussion paper series of the Institute of Economics HAS. The IPS model is a comparative institutional framework based on the dependency and interest promotion relationships that evolved among party- state- and economic decision-makers during the decision-making process. The model embraces the interactive network that is created during the dynamics of these relationships, including its elements, connecting and operating principles. It describes the selection system

in the distribution of resources that is based on the revealed political rationality of the structure and operation of the network.

- 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



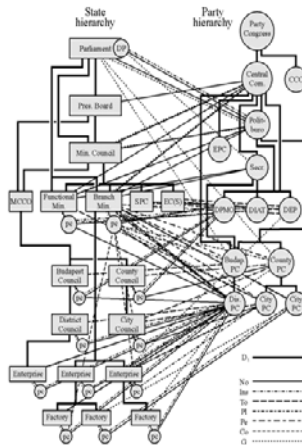
Note: S= state hierarchy, P= party hierarchy, An= Actor at level n, D1= direction of intra-hierarchy dependence, D2= direction of cross-hierarchy dependence, I1 direction of intra-hierarchy interest promotion I2= direction of cross hierarchy interest promotion, I3 short-cuts (feedbacks) within and across hierarchies.

**Figure 1: Structural characteristics of the party-state network**

The model analyzes the reasons and consequences of the behavior, adaptation and interest of actors that forge the cohesion of the structure, and lead to its self-reproduction. It also deals with the structural and operational traps of the net that lead to the self-consumption and transformation of these systems. .

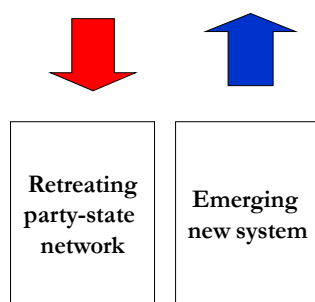
The model describes the above characteristics as self-similar in time, in space and in different aggregation levels of the network. It also reveals the structural background of the different operation and transformation despite self-similarities caused by the varieties of power distribution of the network. Different distributions of power influence the divergence in the speed, sequence and conditions of transformation and thus, the varieties of system outcomes.

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



**Figure 2. Consequences of structure-conforming transformation on sequence speed and conditions**

We define transformation in party-states by a process during which the retreat of the party-state network from different (economic, social, political) sub-fields of the system takes place. This process occurs parallel to the emergence and expansion of an alternative field (competitive or not) outside the party-state network. Owing to the self-similar and specific characteristics of the network, retreat and emergence might occur at different times, at different pace, or the same time at different level of aggregations, or differently in geographic space, or differently at different social and economic sub-fields, or even economic sectors. The model interprets the strong interrelation between the dynamics of self-reproduction and transformation as social system evolution.



**Figure 3. Transformation of party-state systems (Csanádi, 2009)**

By interpreting the structure, operation and transformation of a system as a network and its dynamics, several apparently independent dimensions of the social system may be analyzed in their complexity and interdependence.

The analysis of institutional structure of party-states in the model embraces formal bureaucratic rules, procedures, outcomes and malfunctions of a hierarchical structure, while also institutional ties binding party, state and economic actors across hierarchies are taken into account. The IPS model reveals the interrelation of the political, bureaucratic and economic fields through individual interactions of decision-makers in party-state systems. Thus, the IPS model simultaneously involves individual actors and institutions, and provides both the structural basis and the dynamic consequences of their interactions.

The IPS model interprets structural position of an actor nested in the network in party-state systems as simultaneously holder of, and captured by, dependency threads and interest promotion channels. Hence the complex capacity of actors for resource attraction from above, resisting capacity to interventions, resource extraction from below and allocation capacity, as well as their inequalities according to the extent of their bargaining capacities based on politically rational concerns in the structure. These same structural conditions will modify the interpretation of budget constraints in party-states: budget constraints if nested in power relations will be interpreted as reproduction constraints of bargaining capacities, while soft budget constraints attributed to economic units in general in party-states will be regarded as selectively soft or hard reproduction constraints of different actors within the network. Constraints of reproduction of individual bargaining capacities are strongly tied to the reproduction constraints of the whole structure. Interrelation evolves through the distribution of power in the network and related individual bargaining capacities within it. The higher the selective individual actors' bargaining capacities within the structure, the more frequently the reproduction of the whole structure meets hardening constraints, owing to hardships of resource extraction due to resistance and to path dependent distribution based on political rationality.

The IPS model deals with disparities of power distribution and its consequences both in time, in space and different levels of aggregation through the network. Thus, it is able to handle simultaneously the dichotomist dynamic concepts of center-periphery, principal agent, state-society, party-state, economy-politics and central planning and local government as different aspects of the same power relations that form the network.

The same network characteristics allow us to combine self-reproduction with the reasons of encoded self-consumption of the system, no matter the pattern of power distribution,

instruments of resource extraction and distribution and economic conditions. Since economic behavior is politically rational instead of economically, and power distribution rather than efficiency determines the constraints of self-reproduction of the system, the process of self-reproduction is simultaneously a process of self-consumption.

Similar complexity is characteristic in handling the system's self-reproduction and transformation in its strong interdependence. Transformation is usually taken as transition to market economy without reflecting on the impact of the interrelated development process of the retreating network and the emerging field outside of it.

The model reflects the strong interrelation among self-reproduction, retreat and emergence by linking the frequency of hardening constraints of self-reproduction owing to the specifics of power distribution to the dominant instruments of self-reproduction (forced resource extraction and redistribution, resource revealing, decentralizing reforms within the network and resource creating reforms outside the network). In this respect the model is able to deal simultaneously with the reforms and their differences and the lack of reforms by integrating them and their complex function in power relations, and within those, in the different patterns of self-reproduction, leading to different ways of transformation.

The model, finds interrelation between structural patterns of power distribution their dynamics and the differences in the sequence, speed and condition of transformation. It also points to the similarities of the composing elements within the processes of retreat (decentralization, emptying, withdrawing, weakening and cutting off of the network) and those in the processes of emergence (the transfer of units and individuals cut-off the net, and that of activities, organizations, groups, individuals and capital stripped off the net, development of that of horizontal relationships and new horizontal organizations), no matter which sub-field is surveyed and which patterns are examined.

The model takes external economic constraints (exerted by the field outside the net, either domestically or abroad), and internal structural constraints (depending on internal power distribution) simultaneously into consideration in their mutual dynamic impact on the system's self-reproduction. The strong interrelation and mutual impact of external and internal elements of reproduction constraints is revealed through their alternating or simultaneous softness or hardness exerting varying strength of adaptation pressures; pressures are combined with the varying time-span of their impact; also pattern dependence of impacts and reactions to varying external and internal adaptation pressures in time, in space and in different aggregation levels are considered.

All these impacts may occur in different stages of the reproduction dynamics: both during the period of self-reproduction and during transformation with different consequences. These same external and internal constraints combined with different time-span explain the differences to the reactions to adaptation pressures of the same patterns and that of different patterns. Based on the self-similarities in time, space and levels of aggregation, the model handles disparities of operation and transformation also spatially and simultaneously in different levels of aggregation.

The combination of the dynamics of external and internal constraints forming adaptation pressures, the pattern conforming reactions, the selectivity in distribution, the structural constraints in self-reproduction, the transitory collapses and pattern shifts and the dynamics of retreat and emergence allow for interpreting this process as a social system evolution.

Finally, the IPS model combines theoretical and empirical research purposes. Despite being a theoretical framework for comparative analysis of party states and their transformation, operationalized composing factors of retreat and emergence also serve as instruments to measure the dynamics of transformation through the relative speed and direction of retreat and emergence.

(publications connected to the theoretical chapter: 2008, Self-consuming evolutions: Chinese version of the English version of “Self-consuming Evolutions: a Model on the structure, self-reproduction and self-destruction and Transformation of Party-state Systems tested in Romania, Hungary and China” Akadémia Kiadó, Budapest 2006; “Varieties of system transformations and its structural background based on the IPS model” published in the discussion paper series DP 2011/5)

## *II. Empirical surveys in China to test the theoretical arguments of the model*

Several dimensions of the transformation described by the model in the theoretical chapter were tested empirically. We have analyzed datasets, newspaper analysis, interviews and consultations at different universities and research institutes and carried out field-work, taking advantage of the emerging research possibilities in new collaborations.

(a) A statistical research was carried out from a large database on the speed, relative direction and spatial disparities of the transformation in China from the approach of the model between 1999 and 2006. (unpublished: parts of it were presented at Oxford, Beijing, Kyoto conferences by **Maria Csanádi**; contribution of **Fazekas Károly** to this chapter was a

literature analysis: A lokális gazdasági és társadalmi tényezők hatása a külföldi működő-tőke beáramlás területi eloszlására Kínában: The impact of local economic and social factors on the distribution of FDI inflow; **Ozsvald Éva:** A belső migráció néhány kérdése Kínában. Tiltás-tűrés- támogatás Some issues of internal migration in China: prohibition, tolerance support -- a literature analysis; **Ozsvald Éva:** Az egyenlőtlenség dimenziói Kínában: a vidék és a város közötti disparitás: Dimensions of inequalities in China: rural-urban disparities – literature analysis)

(b) When global crisis hit the world, and exerted external adaptation pressure requiring internal reactions in all export sensitive countries, a chance emerged to examine the impact of the crisis on the transformation of the Chinese party-state system. The question was whether would dramatic economic set back caused by the global crisis shake the system, induce the decline of party legitimacy and thereby create the chances for the development of the premises for political transformation? (published in **MT-DP 2009/5** Mária Csanádi - Hairong Lai - Ferenc Gyuris [Global Crisis and its Implications on the Political Transformation in China](#));

(c) After concluding from statistics that the dramatic period of the crisis in China was very short-lived we have done a short empirical survey in 16 prefectures and their news-papers from 2008 to end of 2009 on economic policy reactions to adaptation pressures during that time and also checked the difference in reactions during the critical short period compared to the general adaptation to pressures. We have compared spatial disparities of these adaptations by grouping those cities from the 16 in the coastal region who were dominantly recipients of migrants from other provinces and those cities in the western regions where outmigration was dominant. We have also checked the impact of reactions on the speed of the transformation and spatial disparities in these issues (published in **MT-DP 2010/13** **Maria Csanádi** [Institutional Reactions to the Impact of Global Crisis at Source and Destination Cities of Migration in China](#); a version of this paper “Impact of Adaptation Pressures on System Transformation During Global Crisis in China” is to be published in 2011 by Routledge as part of a book entitled: China's Role in Global Economic Recovery; **Fazekas Károly** A globális pénzügyi válság munkaerő-piaci következményei Kínában: Consequences of global financial crisis on labor-market. A report based on the papers, presentations, comments and panel discussions at the conference entitled „Labor Market in the PRC and its Adjustment to Global Financial Crisis” organized by the Asian Development Bank Institute in 2009. June 18-19

(d) based on the results of the statistical survey (a) and the (c) fieldwork, we have analyzed the consequences of adaptation to the impact of short-term external dynamics on the system and their influence on the dynamics of transformation on the example of entering the WTO during global growth and reacting to the impact of global crisis (published in **MT-DP 2010/31** Mária Csanádi: [Reactions to Short-Term Adaptation Pressures during Transformation in Party-States: the Case of China](#));

(e) In a further empirical survey entitled „Stimulus programok egyenlőtlen térbeli hatása a migrációra és az átalakulás dinamikájára” (The spatially disparate impact of the stimulus plan on migration and the dynamics of transformation) supported by the National Fund, between 2011-2014, we shall check the long-term consequences of the short-term crisis and short-term state intervention – the stimulus package -- implemented in 2008 to 2010 at a geographically coastal and a central city Changzhou and Zhengzhou respectively.











Statistically updated (a) to (e) will form the chapters of a future book. As we mentioned, the theoretical chapter is finished, but the first chapter that should analyze the development of the literature dealing with transition and social system evolution still has to be written, while the last chapter dealing with the long-term impact of short-term interventions still to be researched.

### *II.1 Statistical research during the period testing the dynamics of transformation described in the model*

We made efforts to operationalize the composing elements of the process of retreat and emergence in the transformation to reveal the dominant dynamics of transformation and find out its spatial characteristics. An operative analytical tool was introduced: indicator of “the transformation dynamics” measuring 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. (Table 1). Here I want to mention that the statistical analysis and approach was supported technically by Ferenc Gyuris, results of his hard and understanding work are the coherence of the analyzed data-set, and all the figures, tables and maps with calculations at provincial and prefecture levels. Based on it we can distinguish several types of transformation dynamics and within those the dominant types. We can also analyze the



disparities of these transformation dynamics at different aggregation levels, in space and in time in China.

	Growth	Stagnation	Decline
Growth			
Stagnation			
Decline			

Note: Blue color represents the direction of change of the emergent field; red color represents the direction of change of the network field.

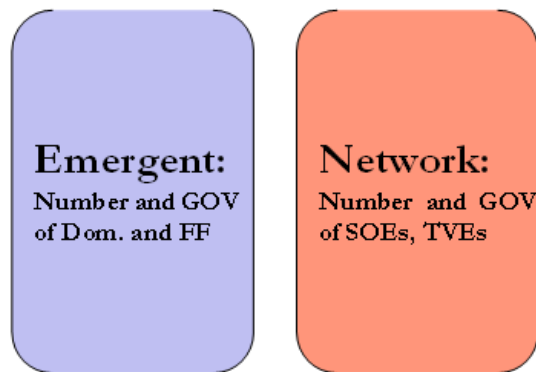
**Table 1. Different types of transformation dynamics**

Several difficulties emerged in several dimensions in the effort to quantify the above cited factors of transformation. Especially the retreat of the net contains factors that are not easily quantifiable. In theory, only cut off the network (privatizations, close-downs) and its weakening (joint ventures, shareholders etc.) would be quantifiable. In practice, confronting with the available Chinese statistics, even these data are unavailable, since there is no overall registration of privatizations and close-downs and there is little chance to get individual data on shares. Thus we have to be contented with *indirect indicators* only. Further problems emerge due to the quality of the available statistics. We have met inconsistency in time both concerning the definition and the content of the same data or the type of data published. These conditions put constraints on longitudinal survey. We had to face further inconsistencies on different levels of aggregation both concerning the content and the type of data. These problems constrained the comparison of different levels both in time and space and also on indicators.

Taking those constraints into consideration, the time-span of our statistical analysis was limited to eight years, on national and provincial levels --from 1999 to 2006 included. Similar time-span could be reached at prefecture level regarding data from 1999 to 2004.

The indirect data we could use at national, provincial and prefecture level was the number and gross industrial output (GOV) of economic units. The two shperes – network and emergence -

- are composed of the following elements: (1) economic units belonging to the network (2) economic units outside (less dependent on) the network (Figure 4).



Note: Dom = domestic private FF= foreign funded SOE= state owned enterprises TVE township and village enterprises

#### **Figure 4. Simplifying the model to adapt to constraints**

Gross output data will represent the strongly simplified dynamics of the IPS model in indicating the dynamics of retreat and evolution. Thus, from our purpose the indirect indicator may distort the correct judgment on system dynamics, since the network -- considering all endogenous factors, or even only privatizations and close-downs -- may substantially retreat, while the GOV of SOEs and TVEs belonging to it may rise. This may occur due to monopolistic prices and potential growth of efficiency, or even benefitting from spill-over effects of the market field.

Based on the results of the statistical survey on spatial disparities of system transformation from the approach of the IPS model, we could define the most challenging dynamics of retreat and emergence and locate them spatially and on different levels of aggregation. Results also reveal the disparities of the dynamics of transformation in time, in space, and at different levels of aggregation during global growth. We have found that clusters of transformation dynamics do not follow regional divisions and are not constrained to provincial borders rather spill over them. Instead, prefecture level transformation dynamics show that there is a multiplicity within provinces, we can see the insulation of certain types of dynamics across the whole country also neighboring opposite dynamics can be detected. We could also reveal that economically relatively homogeneous coastal region at provincial level is strongly disparate regarding the transformation dynamics of the same at prefecture level. A dominant type of transformation dynamics is demonstrated during this period. This dominant type

matches the period of absolute retreat of the net and the theoretical definition of system transformation: the output of the economic units pertaining to the network is declining while that of those in the competitive field is expanding. Examining the stability of the types of dynamics in space and in time we could reveal that the shift of dominant types within the surveyed period of global and national growth from absolute to relative retreat of the network (when outputs of enterprises pertaining to both network and emergent field grow but that of the competitive emergent field grows faster). Comparing the differences in the spatial distribution of the two periods, one can conclude that any shift from any type may occur to any direction. Shifts were so frequent that behind each type of dynamics different provinces are located in the two periods. Shifts proved to be sensitive to the relative trend (and not absolute value) of certain economic indicators (GDP, employment, retail sales). Based on those findings, we project the dominance of a further type of transformation dynamics as a result of the consequences of global crisis, since all those indicators are export sensitive.

(b) Global Crisis and its Implications on the Political Transformation in China

Next we have analyzed the impact of global financial and economic crisis on China's transformation process. First, we detailed the immediate social and economic consequences of the global crisis in China and second, the effects these consequences have on the system's transformation and its spatial disparities. Our hypothesis was that while overall growth directly fuelled domestic economic growth and indirectly contributed to the acceleration of economic transformation, overall recession will directly fuel domestic economic deceleration and might indirectly contribute to the acceleration of political transformation. We supposed that the global recession, economic downturn and changing dominant dynamics in China might resemble the internal and external economic preconditions that have led to the process of political transformation first in Eastern Europe and Soviet Union though under a different dominant transformation dynamics. Based on the theoretical projection of the model, the empirical experiences and its description in Eastern Europe and Soviet Union, it presumes that the changed dominant transformation dynamics could influence the commencement of a political transformation at locations directly or indirectly most severely attained by the fall-back. It underlies this argument indirectly with the fact that prefectures where the number of semi-free elections dramatically increased at township and county levels in 2002 in China, had overwhelmingly the same type of transformation dynamics as is presupposed to become dominant in the near future nation-wide. Moreover, the paper points to the fact that though semi-free elections emerged from 1995 onwards, the dramatic increase in the number semi-

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

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

Uncertainties emerge concerning this supposition, since there is no experience on the process of political transformation second in a context of advanced economic transformation among transforming party-state systems. What we have is only economic transformation second in a context of advanced political transformation.

### c) Institutional Reactions to the Impact of Global Crisis at Source and Destination Cities of Migration in China

Next we wanted to examine the processes the global crisis induced in practice in economic policy behavior. The impact of the global crisis in China presented itself in the decline of export demand, and its multiplying effects were very quickly sensed in the decline of the GDP, of domestic demand, import demand, labor demand, internal consumption, real-estate market, stockmarket, total investments, FDI inflow, all those events inciting adaptation pressures. We have approached the impact of global crisis on China from a systemic point of view.

Our question was: in what ways external and internal adaptation pressures influenced the transformation of the party-state system in China? Did reactions have an impact on the transformation of political or economic system? To answer these questions we took advantage of a developing research collaboration with a professor in the School of Economics and Business administration of Beijing Normal University pursuing a mega-research on migration in collaboration with Australian partners in 16 Chinese prefectures. We have joined this

research peripherally, by organizing interviews performed by his phd students and carrying out newspaper analysis by the same upon my instructions. The purpose of our small field research in 16 prefectures was to respond to these questions by examining 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 source cities of outmigration and destination cities of immigration. We have also tried to detect their common or different sensitivity to crisis in the measures implemented and in the nature of these measures, analyzing the periods before, during and after the crisis.

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 (Rural-to Urban Migration in China and Indonesia, large empirical follow up survey carried out by BNU SEBA and Australian Universtiy) data were available, so the analysis of migrant flow as a reaction to crisis was 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 judgment. We also had to acknowledge that published news is not necessarily overlapping real activities in any form and also each newspaper has its own strategy of publication. Moreover, since the number of interviews was few, the number and position of respondents varied, thus, comparability was low. Advantages and handicaps however, both served as experiences for putting new research questions and helped the formulation of the methods of a more complex project on this field.

Statistical data, scholarly papers, interview and newspaper analysis suggests that critical period forcing adaptation was deep but very short: it has affected prefectures from the last quarter of 2008 to the end of the first quarter of 2009. Economic crisis, though deep, did not last long to challenge the stability of the Chinese power structure, and enforce longer term institutional adaptation on 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 also external pressure also decreased. By April, 2009, though still far from total recovery and full with uncertainties concerning future developments, World Bank data reports on the improvement of all economic indicators, among those sensitive related to the changes of transformation dynamics: the growth of GDP, export demand, internal demand, and labor demand (WB, QR, p.2 and 4). Short-term stability of the power structure was due to several structural factors in the economic and social subfield, to radical austerity measures in political sub-field, and to the increased activity of central and local party and government organizations in directly and indirectly solving social problems rather than directly economic issues during the critical period. The interplay of the dynamics of the different sub-fields ensured the overarching of the crisis and the stability of the power structure on the short-term.

Coastal provinces and within those main exporting prefectures and main destinations of the floating population were strongly attained by the impact of the crisis, and so were central and inland provinces and prefectures which were major sources of migrant outflow.

Thus, adaptation pressures were spatially strong. According to available news and interviews both groups reacted sensitively to the crisis. Overall, actions reflected higher sensitivity in social rather than economic issues, more new functions than new organizations, more short than long-term and in general, more oriented towards enhancing competitiveness than that of the party-state field. Common characteristics and also differences however may be perceived in the type and nature of more frequent actions according to cities being sources or destinations of migration and also their behavior before, after and during the critical period. In both groups, the changing nature of reactions during the critical period has apparently contributed to the slowing down economic transformation. But both changing nature and alteration of measures proved to be transitory, that is reversible with the waning of the impact of the crisis. During the critical period, changes were more radical, instruments were more conservative, and impact of measures was more long-term at source cities of migration than that of those at destinations of migration. Had the crisis and internal and external adaptation pressures lasted longer, overarching social measures probably would have needed more substantial institutional changes. It is another question whether these substantial changes would enhance or delay system transformation.

**(d) Reactions to Short-Term Adaptation Pressures during Transformation in Party-States: the Case of China**

Next we wanted to detect the sensitivity of the transformation dynamics during both global growth and global decline in China. The purpose 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. We have relied on the fact that transformation dynamics demonstrates sensitivity to external impacts. We have experienced its shift of the dominant type of transformation dynamics after the WTO accession. Shift in the dominant type of transformation dynamics meant the transitory slow-down of the pace of economic transformation by expanding the network field, though in a slower pace than that of the competitive field (relative retreat of the network).

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. 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. We concluded that short-term adaptation pressures do not destabilize the political sub-sphere since compensating economic policy interventions on social field may temporary smoothen anomalies.

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.

(d) Long-term impacts of short-term interventions and its spatial disparities

Since we were not able to examine the consequences long-term adaptation pressures to system transformation we focused our interest on the long-term effects of the short-term reactions to short-term adaptation pressures. In the framework of an expanded collaboration

with four partners: the SEBA BNU, the Economic Institute of Fudan University, the Institute of Economics of the Chinese Academy of Sciences and Warwick University (UK) we are setting the basis of a new empirical survey. A regionally eastern and a central prefecture will be surveyed, Changzhou (Jiangsu province) and Zhengzhou (Henan province) respectively. At each prefecture 500 enterprises will be questioned on jointly created questionnaire, based on the results, 20-20 enterprises who participated in the stimulus plan will be selected for enterprise manager interviews and migrant interviews at the same and information from 8 provincial level and two prefecture level newspapers on the topic. From those we will be able to reveal regional disparities of the implementation of the stimulus plan, its regional consequences on the economic development, production and export structure and migration drives, routes and motivations.

*Collaborations developed during the research period:*

- 1) A general framework of collaboration was signed between the Institute of Economics HAS and Institute of Economics CASS in 2009
- 2) A special agreement was signed between IE HAS and Beijing Normal University School of Economics and Business Administration to organize workshops alternatively in Hungary and China in 2009. The first workshop was performed in 2010 spring with great success in Beijing with five Hungarian participants from our institute and another five from the partner's side.
- 3) Another special collaboration based on contract was signed with the same partners concerning an empirical research collaboration and its costs. Within this framework a Chinese research assistant, and five phd students volunteered to do interviews based on my questions in the earmarked cities and do newspaper analysis based on my call-words. They were supervised and monitored by Professor Li Shi and myself.
- 4) Collaboration has expanded and deepened for the next empirical field-work supported by the Hungarian National Fund. Collaborators in the new research:
  - a) Prof Liu Xiaoxuan deputy director at the Institute of Economics CASS, head of the division of microeconomics, an expert on enterprise reforms and economic performance, experienced in empirical surveys. She will be organizing the survey for 500 enterprises and will do interviews with economic policy makers and enterprise managers in Changzhou (Jiangsu province) and Zhengzhou (Henan province).



Interview plans are being jointly worked out and we collaborate in the refinement of the questionnaire, and she will make the sampling based on joint agreement.

- b) Professor Zhao Chen deputy director of the Institute of Economics at Fudan University (Shanghai), expert on small and medium sized enterprise behavior. He is leading a field-research for 500 enterprises organized at Changzhou. He offered me to join his questionnaire and include my questions into his survey. These questions were jointly worked out and are the same as those to be asked at Zhengzhou.
- c) Professor Li Shi from SEBA BNU expert on migrant labor and income disparities. He provides the phd students and master students (all together 11) who will do the migrant interviews and news collection. He also provides a research assistant and mediates my contacts, and contributes with ideas to the joint migrant interview plan.
- d) Professor Nana Zhang at Warwick University, she is a sociologist, an expert on labor and migration and methodology. We are working on a joint interview plan for migrants. She will train the 11 SEBA BNU students in theory and practice for interviewing migrants, we shall hold a joint workshop to train students for interviewing. She will monitor interviews and interviewers on the spot and will do interviews herself with migrant workers.

*Presentations given during the research period:*

2008 Spatial disparities of system transformation in China **Center for Comparative Politics and Economics of the CC (Beijing) 2008**

2008 Spatial disparities of system transformation in China **Beijing Normal University Economics and Resource Management Institute (Beijing) 2008**

2008 Spatial disparities of system transformation in China **Institute of Economics CASS (Beijing) 2008**

2008 Spatial disparities of system transformation in China **Peking University China Center for Economic Research (Beijing) 2008**

2008 Spatial disparities of system transformation in China **Beijing Normal University School of Economics and Business (Beijing) 2008**

2008 Political transformation in party-states: a theoretical approach **UNIRULE Institute of Economics (Beijing) 2008**

2008 The „Chinese style reforms” and the Hungarian „Goulash Communism” Conference on China’s Three Decades of Reform and Development in Global Perspective, **EAI University of Singapore (Singapore) 2008, 7 & 8 Nov**

- 2008 From Entity to System and from System towards a Political Entity Conference on Reinventing the Chinese Party-state: Reflections on the Social Transformation in China **Peking University, University of Oxford, Shenyang Normal University (Shenyang)** 2008 5 and 6 December
- 2008 A seminar held in Kyoto in 2008 to analyze the book at Kyoto University, organized by professor Satoshi Mizobata, head of the Economic Institution Division of the Institute of Economic Research; Kyoto, 2008
- 2008 Party-state systems and system transformations **Kyoto University (Kyoto)** 2008
- 2008 Spatial disparities of system transformation in China **Chuo University (Tokyo)** 2008
- 2009 The impact of global crisis on system transformation in China and its spatial disparities **Renmin University, Department of Economic Geography, Beijing** 2009
- 2009 The impact of global crisis on system transformation in China and its spatial disparities **Center for Comparative Politics and Economics of the CC, Beijing** 2009
- 2009 The impact of global crisis on Hungary **Institute of Economics CASS, Beijing** 2009
- 2009 Structure, operation and transformation of party-states, the example of China **SEBA Beijing Normal University Beijing, 2009**
- 2009 Intensive 4 days course for to prepare phd students for the coming field research (theory and interview methodology) **BNU SEBA Beijing, 2009**
- 2009 Global crisis and its implications on political transformation in China, **Oxford University Institute for Chinese Studies (UK), 2009**
- 2010 Institutional Reactions to the Impact of Global Crisis at Source and Destination Cities of Migration in China presentation at the conference Chinese Economic Association Annual Conference on **Global Economic Recovery: The Role of China and Other Emerging Economies** Co-organised by Oxford Department of International Development, Oxford University China Centre, Department of Economics University of Oxford (became a book part)
- 2010: Reactions to Short-Term Adaptation Pressures during Transformation in Party-States: the Case of China Workshop organized by **Kyoto University and Kyoto, 2010**
- 2010 Institutional Reactions to the Impact of Global Crisis at Source and Destination Cities of Migration in China Workshop at **BNU SEBA, Beijing, 2010**
- 2010 Reactions to Short-Term Adaptation Pressures during Transformation in Party-States: the Case of China **Institute of Economics, CASS Beijing, 2010**

2010 Intensive 5 days preparatory course for the further project at SEBA BNU for 11 phd and masters students on theory and interviewing methodology and experiences of the former survey project.

**Consultations in 2010 to prepare the new survey:**

BNU SEBA

Institute of Population Labor Studies, Beijing

Peking University, Economic Department Beijing

Institute of Economics CASS, Beijing

Fudan University, Institute of Economics, Shanghai