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**Title:**

**"Economic and systemic consequences of adaptation to external and internal pressures in China"**

**Abstract:**

Global downturn in 2008 exerted strong adaptation pressures on China that incited prompt state response in the form of stimulus package. The one-off large state intervention had consequences in several dimensions: it had a positive impact on the system's stability and the party's political legitimacy on the short-term and in activating alternative resources. State intervention, however, also mobilized the general system characteristics, concluding in overheating economy and new restrictions.

The package contributed to the overarching of short-term social and economic problems at the price of temporary slowing down the dynamics of economic transformation. Slow-down occurred due to the accelerated expansion of the state owned fields upon state intervention, compared to temporary declining market fields owing to global crisis. Structurally, the economic policy focus of the stimulus package and the impact of the crisis did not overlap. Discrepancies emerged in regional location (central, western instead of eastern), at priority sectors (infrastructure rather than industry), in trade orientation (domestic instead of export), ownership (state rather than private), size (large against small and medium economic units) and affiliation (domestic rather than foreign). Disparate focus had positive consequences:

Regional focus of state intervention decreased spatial disparities of development, diverted migration routes, increased bargaining capacities in labor market that incited changes in the production and export structure. Sectoral focus of state intervention in infrastructure compensated the temporary decline in manufacturing. The growth of internal demand activated other sectors and in tendency decreased export dependency. Ownership focus of state intervention expanded the state sphere but also mobilized the market sphere. Size focus of state intervention expanded the opportunity of state owned enterprises but also activated SMEs.

However both external and internal adaptation pressures endure. Global downturn is lasting longer than expected due to the persistence of the European financial and economic crisis; and there is a growing pressure exerted by the US to adjust exchange rate. Internally, short-term state intervention mobilized *system-characteristics* leading to overheating, and as a response, to the drive to cool it down through restrictions. Owing to mobilized politically rational preferences in the allocation of resources in party-states, central government shouldered the risk of loan for SOEs and local governments. Local governments shouldered the risk of loan for locally founded financial vehicles for infrastructure projects. Owing to the political rationality of economic behavior of those selected for allocation the drive for growth and lack of efficiency concerns in the process of self-reproduction lead to uncontrollable growth. Phenomena of this process are: the local rush for development; uncontrollable loan supply; rise of energy consumption; reviving non-performing loans; local banks' risky loans for governments through financial vehicles; excess land selling by local governments as collaterals; Indebted local governments; inflation; asset bubble risk, etc.

Thus, global and internal developments lead to persistent parallel adaptation pressures: The newly emerging double pressure is pointing to potential contraction of both market and state owned fields. Would this challenge political legitimacy?