Regulating Decentralized State Industries: China’s Auto Industry

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Abstract

A growing body of literature on China’s “regulatory state” has analysed the efforts of the Chinese government to regulate strategic yet highly centralized state-owned industries. Yet how does decentralization affect this need for regulation? This article analyses the pattern of regulatory governance for one of China’s most decentralized but strategic industries, the auto industry. The central contention is that in industries where there is already a strong local component (local ownership and substantial autonomy of local governments), regulation occurs differently than in other strategic state-owned industries.

However, the central government remains important, and sometimes invisible, mechanisms of control, even where there is local ownership.

The article will begin with a discussion of the dominant literature on China’s regulation of strategic industries and auto firms. It proceeds to introduce institutional mechanisms for central and local auto

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manufacturing. It then examines the two case studies, and we find that
the crucial mechanism for managing the problems from decentralized
control is the organization of an “invisible” supervising body. Clear
distinctions are drawn with the quite transparent regulatory bodies
established to regulate centrally controlled monopolies. The article
concludes with an evaluation of the underlying logic of regulatory
politics in the Chinese political economy.

**Introduction**

One of the most important aspects of China’s move to a market-based
economy has been the effort of the government to replace its former
structure of direct government control with regulatory mechanisms
deemed appropriate to an advanced industrial economy. In other words,
at the same time as markets have come to determine much about
production and consumption, the state has not beaten a total retreat.
Rather, the People’s Republic of China (PRC) government has had to
establish a range of different tools and levers to meet regulatory goals at
the same time as it has retained old levers of control. This broad trend
underlies the emergence of China’s “regulatory state” insofar as it
concerns the industrial economy.

Up to now, much that has been written on China’s regulatory state
has focused on “strategic” infrastructure industries that are highly
centralized in both state ownership and control,\(^1\) or on social regulation
of very fragmented and largely private consumer goods and services.\(^2\)
Yet other important segments of China’s economy pose a conundrum: is
there a discernible pattern of regulation where ownership is decentralized
(though not privatized), and yet the industry is still considered strategic
by the government? China’s auto industry provides an excellent case for
understanding the effects of decentralized ownership on regulation of
important industries. The focus of industrial policy for over a decade, the
auto sector is considered by the Chinese party-state to be crucial to the
health of the economy. Potentially confounding the central state’s
guidance is the fact that China’s auto industry has mixed ownership
forms; some auto producers are owned by the central government, while
other producers — some of the major auto firms — are owned by
municipalities. Some private auto producers have also sprung up.
Furthermore, the central government has long conceded that foreign
capital and integration into a global value chain is crucial for the success