

Rent Utilization in a Centrally Planned Economy: A Case Study of China's Auto Industry

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Abstract: *This paper discusses rent-seeking phenomenon in China's centrally planned economy before 1978 with a case study on auto industry. The analytical model of rent-utilization comprising three phases of rent-creation, rent-allocation and rent-seeking is used to extend the classical rent-seeking concept. Under the centrally planned economy system, there was a kind of rent in the form of "surplus" or "institutional rent" created by the central government, and rent-seeking activities by local governments emerged as a common phenomenon due to the objective existence of an "M-form hierarchical structure" while State-owned auto enterprises also became rent-seekers with the help of local governments. The multilayered mode of rent utilization had already emerged in the auto industry under the traditional planned economy system.*

Keywords: *rent seeking, rent creation, rent allocation, rent utilization, China's auto industry, centrally planned economy, multilayered mode of rent utilization*

INTRODUCTION

Although rent seeking has been a hot research topic in social science such as Economics, Politics and Public Administration since the mid-1970s, most of the literature has focused on market-based economies, with rare focusing on plan-based economies. Initially, rent-seeking theory is closely related to monopoly under market-based economies (Krueger, 1974). All the rent-seeking studies of Virginian mainstream such as Tullock, Rowley, Tollison, Congleton etc. follow this tradition while most empirical studies pay attention to rent seeking in market-based economies, focusing on the interaction between "private sector" and "government" (Boyd, 2006; Khan and Jomo, 2000; Yoon, 1991). Then does it mean that non-market economic system is so healthy that it has no relation to rent-seeking phenomena? The answer is No. In fact, rent is created and rent-seeking is ubiquitous in every economy, whether market-oriented or plan-based. Rent and rent-seeking are twined with government intervention, and where there is regulation whether by capitalism or socialism, there is rent and rent-seeking.

Quite a few scholars deny that the existence of rent-seeking activities, even the existence of rents, in China's centrally planned economy, while they argue that rent-seeking activities by local governments and state-owned enterprises were widespread in economic development after Chinese economic reform from 1978. On the contrary, a very few scholars, including Fung (1987), Hu (2009), Lin, Cai and Li (2003) and Wedeman (2003) argue that substantial rents had already existed in the centrally planned economy before the reform. However, they did not hold a same view on whether there were rent-seeking activities under the centrally planned economic system on the one hand, and on the other, all the scholars just theoretically analyzed rent-seeking in the centrally planned economy, failing to provide empirical studies based on historical fact.

This brings us a series of questions: were substantial rents actually created in China's centrally planned economy? If so, in what form and by what means were they created? How were the rents allocated? Did the rent-seeking activities exist? If existing, who were the rent-seekers? Were the state-owned enterprises the main rent-seekers as they were in the economic

context after Chinese economic reform from 1978? What about the local governments? What effect did the rent-seeking activities exert on the industrial development?

This paper is to identify these aspects of rent-seeking in China's centrally planned economy before 1978 with a case study on auto industry. The primary purpose is to find out whether there were rents and rent-seeking activities in development process of China's auto industry in the centrally planned economic context. The central purpose is to find out what roles the central government, local governments and enterprises play in the development process of China's auto industry in the centrally planned economic context with a broader analytical model of rent utilization comprising three phases of rent-creation, rent-allocation and rent-seeking (Gao, 2016, 2019).

The auto industry was chosen as object of analysis for the following reasons. Firstly, the auto industry had been under heavy-handed control by the state from the very beginning until recently, famous for a "living fossil" of planned economy in China. Secondly, the auto industry is one of the important "pillar industries" in China nowadays, so it could represent the development of similar sectors and even the whole national economy. By so doing, this would contribute to complete understanding how the rent utilization in the centrally planned economic context shaped the development of China's auto industry. This would also help to understand how rent seeking in a plan-based economy are different from those in the market-based economy. This would contribute to extend the validity of rent-seeking theory.

The Zigzag Development of Auto Industry in China's Centrally Planned Economy

Under the traditional planned economy system in Before Reform stage, Chinese central government itself directly created its auto industry by establishing State-Owned Enterprises (SOEs) following the way of the Soviet Union. Although the auto industry benefited a lot from the rent-producing macro-policy in obtaining investments and materials under supply shortage, the auto industry developed zigzag with low level of production capability and technology under planned economy system.

Considering the importance of the auto industry to the national economy and military mobility, the newly born China government moved quickly to create its own auto industry. China planned to build large-scale stated owned auto enterprises under direct control of the central government, following the way of Soviet Union. China started to build its The First Auto Works (FAW) with the help of Soviet Union in 1953, and the first truck was produced in 1956 under the brand of "liberation (jiefang)". In 1958, a limousine model named "red flag (hongqi)" was made and since then "hongqi" has become the famous homegrown brand to service the top-ranking leaders.

During the "Great Leap Forward" movement (1958 to 1960), some local state-owned auto factories were built thanks to the first-time reform of decentralization. Four of them were built in Beijing, Shanghai, Nanjing and Jinan which have become the main auto manufacturing bases since then. It is worth noting that a sedan named "phoenix (fenghuang)" was made for middle-level cadres by Shanghai Auto Factory and then was renamed "Shanghai".

From the mid-1960s, with the increasing military demand for motor vehicles, the Chinese government started to build new truck factories in relatively isolated mountainous inland regions. Sichuan Auto Works and Shaanxi Auto Works were built to manufacture military off-road vehicles. The building of Second Auto Works (SAW) was also approved, then ultimately finished in 1978.

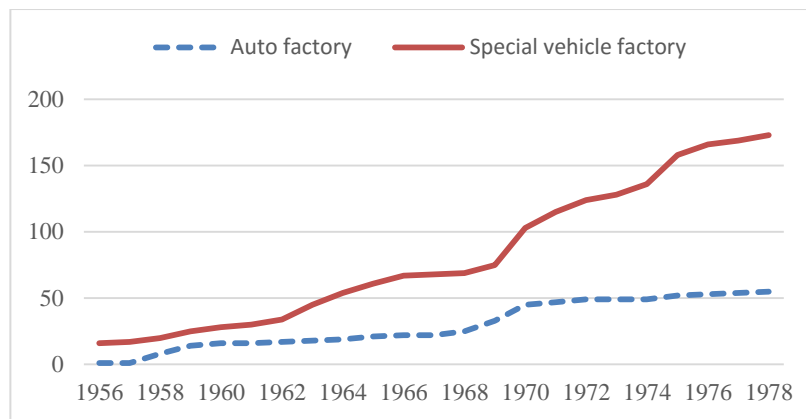


Figure 1. Number of Auto Plant and Special Vehicle Factories, 1949-1978

Source: *China automotive industry yearbook 1992:94.*

From 1969, the second wave of building local state-owned enterprises started. All of the provinces except Tibet and Qinghai established their own auto factories and parts factories, but most of the parts could only be used for the vehicles made in the same locality. By the end of 1978, the number of auto factories increased to 55, producing various types of trucks and buses, and there were 173 special vehicle factories, making different kinds of special utility vehicles (See Figure 1). The auto production amounted to 149,062, of which sedans accounted for 2640, merely about 1.77% (See Figure 2).

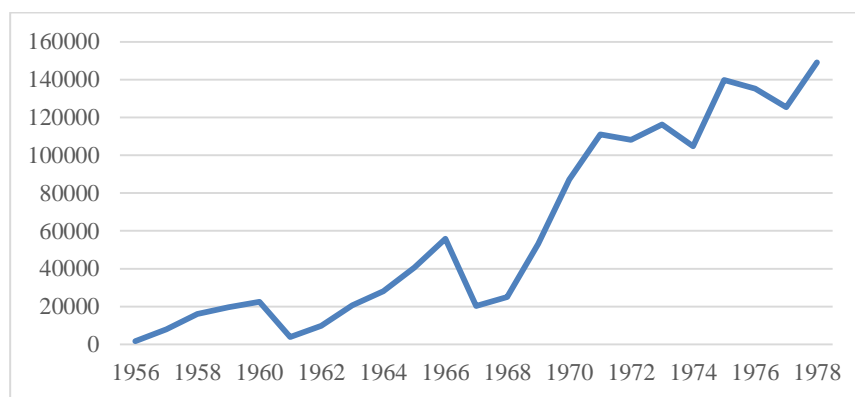


Figure 2. Output of Automobiles, 1956-1978

Source: *China automotive industry yearbook 2009:46.*

Before the market-oriented reform era, there were several characteristics of the auto industry as follows. Firstly, the main products were trucks, some buses and only a few sedans with homegrown brands. A small number of “red flag (Hongqi)” sedans were produced by FAW for top leaders, a few “Shanghai” sedans for middle-level cadres. Secondly, like many other manufacturing sectors, the auto industry had a highly scattered and fragmented structure. During that time almost every province, further down to each prefecture and even to county, had a relatively complete auto industry facility. Thirdly, most of the auto factories were small in scale, with low level of production capability and technology.

In fact, the actual development of the auto industry was badly different from the initial goal. It took about 25 years from 1953 to 1978 to increase the yearly production to about 150 thousand, and what’s more astonishing, this small amount was from more than 55 auto plants. The auto industry in the initial stage did not achieve much, ending with a low production capacity under the scattered production.

This differed dramatically from its forerunner. Although Soviet Union began to make their

own vehicles from 1924, the auto industry started in the true sense in 1929 by building its first large-scale auto manufacturing plant, which was also governed in the form of SOE under direct control of the central government. Only 10 years later in 1939, the auto production already amounted to 200 thousand units, and there were no more than 5 main auto factories(not including special vehicle factories). About 28 years later in 1957, the production hit 495 thousand and only about 5 new auto plants(not including special vehicle factories) increased (Ji,1985).

Rents and Rent Creation

In this initial stage when China was under capital-scarce situation since its very foundation, the China government adopted a heavy-industry-oriented development strategy in 1953 which is termed by Lin et al. (2003:29-67) as “the leap-forward strategy.” In order to lower the costs for development of heavy industries characterized with a capital-intensity, the central government had to suppress artificially the capital formation costs. Therefore, macro-policy tools with distorted prices were implemented by artificially lowering the prices of credit, foreign exchange, energy, raw materials, labor and so on.

Thus a great many of rents, a special form of “surplus”, were created. “surplus” refers to the price gap between the market-clearing price and the artificially lowered price fixed by the government (Ngo, 2009). Different from monopoly rent, surplus type rents come from the direct price control. In theory, the beneficiaries are the buyers who receive the rationed goods at a lowered price (Fung, 1987; Hu, 2009), but the state is the monopolistic legitimate owner of the rents (Wedeman, 2003:60-68). However, which individual or industry can get the rationed goods at what price depends on the political authority and responding institutional arrangement in the planned economic context. In this sense, surplus type rent can be termed as “institutional rent” (Lin et al., 2004:210-214).

Regarded as one section of the general heavy industries, the auto industry under this political economy context was running under same situation. Institutional rents, particularly in the auto industry, were created mainly in forms of (i) interest rates of bank loans,(ii) foreign exchange rates, and (iii) price gap of products.

The first kind of institutional rents in the form of interest rates in bank loans were caused by a low-interest-rate policy. In order to develop the capital-intensive heavy industries including auto industry requiring long construction cycle, a low interest rate was maintained for the whole plan-economy stages (See Table 1). In May 1950, the monthly rate of industrial credit fell down to a normal level of 3.0%. However, in the following years, the interest rates were adjusted quite a few times and fell dramatically (Zheng, 1991:115-120).

Table 1
Interest Rate of Industrial Credit Adjustments(Monthly rate)

Date	Monthly rate(%)	Extent of Adjustment(%)
May,1950	3.0	-
July 31, 1950	2.0	-1.0
April, 1951	1.5~1.6	-0.5~-0.4
January, 1953	0.6~0.9	-0.9~-0.7
January, 1954	0.456	-0.144~-0.444
June, 1960	0.6	0.144
August, 1971	0.42	-0.16

Source: Zheng (1991:115-120)

The second kind of institutional rents in the form of foreign exchange rates between the official and the market rates were created by a low-exchange-rate policy (See Table 2). In the initial stages of development in China, foreign exchange was as scarce as capital because exportable goods were highly limited. However, a lot of capital-intensive equipment for heavy industries needed to be imported, requiring payments in foreign exchanges. Therefore, if the foreign exchange rate had been determined by the market, it would have been too costly for the auto industries. To ensure the key projects could import critical equipment at low prices, the China government continued to suppress foreign exchange rate by artificially overvaluing domestic currency ever since 1950. In a little more than one year from March 1950 to May 1951, the exchange rate of RMB against U.S. dollar was adjusted downward 15 times (Lin et al., 2003:42).

Table 2
Exchange Rate Adjustments (US\$100 and Sterling £100=RMB ¥)

Date	U.S. Dollars		Pounds Sterling	
	Exchange rate	Extent of adjustment(%)	Exchange rate	Extent of adjustment(%)
March 13,1950	420.00		-	-
July 1, 1950	375.0	-10.71	989.00	-
July 8, 1950	360.00	-4.00	956.00	-3.34
July 26, 1950	360.00	0.00	932.00	-2.51
August 7, 1950	350.00	-2.78	914.40	-1.89
September 5, 1950	322.00	-8.00	812.20	-11.18
May 23, 1951	223.00	-30.75	-	-
December 1971	246.18	10.39	-	-
July 1978	172.00	-39.07	-	-

Source: Lin et al. (2003:42)

The third kind of institutional rents in the form of price gap was created by price control in varieties of products. During the traditional economic system, most of the products, especially the agricultural products, energy and raw materials, were put under price control by the government. In 1953, the State Planning Commission (SPC) was established to fulfill the heavy industry strategy by implementing the low-price-control policy. The commission classified the materials into three categories: (1) Category □ materials under unified allocation of the state and ministries; (2) Category □ materials under allocation by state industrial ministries and commissions under the State Council; and (3) Category □ materials under the allocation of the local administration. From 1953 to 1957, Category □ materials increased from 110 to 231 items, while Category □ materials increased from 227 to 301(Wang, 2010). The main energy materials such as coal, hard coke, steel and iron used in the auto industries were under Category □ materials whose price were fixed artificially at a lower level.

As one important section of the general heavy industries, the auto industry was running under the same situation in this political and economic context. These three kinds of rents were also applied in the auto industry that attracted great attention from the top-level leaders, and benefited from the rent-producing macro-policy by comparatively easily obtaining the investment, foreign exchanges, and raw materials that were generally in short supply. For the auto industry, the investment by the government, central and local, accounted to RMB 0.546 billion from 1953 to 1957, 0.86% of the national total investment, and the investment

increased to RMB 2.257 billion, accounting to 0.99% of the national total investment in the late years of this stage (*China Automotive Industry Yearbook 2009:45*). Thus, the related auto enterprises benefited a lot in the capital-scarce context. In the initial stage to build its own auto industry, China imported large-sized machines and equipment that could not be manufactured by itself. 80% of the processing equipment for manufacturing trucks was imported from Soviet Union when FAW was built in the late 1950s, and Sichuan Auto Works also imported manufacturing technologies and processing equipment for heavy-duty trucks from Berliet in France in 1965 (Sun, 2009). These enterprises received a large sum of rents in the form of foreign exchange rates. The target auto enterprises also benefited from the raw materials with large price gap. For example, steel is one of most import raw materials for auto industry, and it was reported that the target auto enterprises could get steel at 50-70% of the market price in the late 1950s and the early 1960s (Fu, 1993:114).

Rent Allocation

The rent was mainly in form of surplus bound to all kinds of resources. In the centrally planned economy, “the ‘state’ extracts rents from producers and consumers by controlling purchasing, production, and distribution. Rents, however, are only monetized when a finished product is sold to a consumer. Prior to that, rents derived from both the underpricing of inputs and overpricing of outputs exist only in theoretical terms” (Wedeman, 2003:64-65). Therefore, the ultimate realization of rents cannot depend only on the state per se but calls for division of labor and cooperation among the three separate agents of procurement and manufacturing and distribution. The procurement and manufacturing agents actually pass along a “shadow rent” to the distribution agent who then monetizes the rent and then deposits the cash rent in the state’s coffers controlled by the central government, and each of them may ultimately obtain a share of the rents they generate and monetize. This process needs tight control by the central government because each of them can obtain a greater share by hijacking the rents rather than passing them intact. Even with a little bit of relaxation of control, each of these agents could become a rent seeker.

In order to fulfill the heavy-industry-oriented development strategy by utilizing these rents, China adopted a centrally planned economic system to realize the tight control, following the way of Soviet Union. Under the orthodox centrally planned economic system such as Soviet Union, the central planned mechanism was based on a U-form in which hierarchical information flow and control were organized into a unitary form by functional or specialization principle, and the authority was in the hand of a unitary agency of central government. In such a system, “most enterprises were grouped by industry and under the direct supervision of ministries, and regional governments were primarily subordinates of the center and their roles were limited to collecting information from below and implementing plans from above without much autonomy” (Qian and Xu, 1993).

For the auto industry, the Soviet Union set up a particular unitary ministry under the central government to govern the whole auto industry in the late 1920s. Although the name of this agency changed over time, it had an extensive and centralized authority of governing the whole auto sector. It took charge of all the authority of procuring, manufacturing and distribution for the whole auto industry, and built state-owned auto factories by types of automobiles under its direct control and supervision with a tight control over the number of total auto enterprises (Ji, 1985; Jia, 2003). In other words, the authority of rent allocation was in only one single agency. By so doing, it intended to diminish the fierce political contention over the authority of rent allocation, and make good use of specialization and economies of scale, therefore promote a fast development of the auto industry.

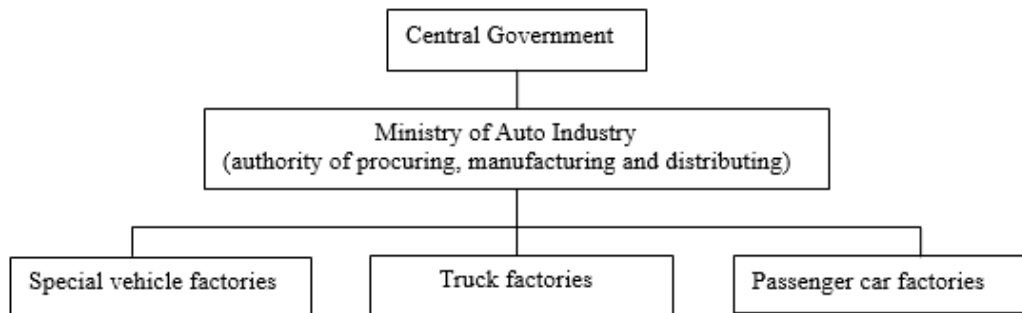


Figure 3. Governing Structure of Soviet Union's Auto Industry

Fragmented Structure of Rent Allocation in the Central Level

Like Soviet Union, China also adopted a similar institutional arrangement to allocate rents. China established the vertical lines of authority based on function over various sectors reaching down from the ministries of the central government. Auto Industry Administrative Bureau (AIAB) under the First Ministry of Machine-Building (FMMB) took charge of the auto industrial development. However, as the main agency for auto industry, FMMB did not have a centralized governing authority like its counterpart in the Soviet Union. During most time of this period, FMMB only had part authority of planning and governing manufacturing process, while authority of procuring and distributing were scattered in different agencies under central government. The procuring authority was in charge of Materials Bureau under direct control of the central government, and the distributing authority was more complicated which changed among three different agencies in the central level from time to time. Most of the time, Materials Bureau took charge of the authority of distributing completed autos while Ministry of Transport (MOT) was responsible for the production and sales of auto parts. In a word, the rent-allocation structure in the central level for the auto industry was very fragmented from the beginning. Compared to Soviet Union, FMMB under such a fragmented structure could not enforce a strict control over the auto industry. Through multiple authorities, it was much easier for rent-seeking activities to occur.

The authority of planning and governing auto industry was also shared between the central government and local governments. As the governing industrial ministry for the auto industry, FMMB governed directly only First Auto Works and several other auto-parts factories at the beginning. Even in the most centralized time in 1964, there were only 15 auto related enterprises under FMMB while the total number amounted to 417. The decentralization between the central and local governments aggravated this situation. During the second wave of administrative decentralization from the late 1960s, most of the auto plants and parts factories including FAW were put under the charge of local governments. The authority of planning, procuring, governing production and distributing also were divided between the central and the provincial governments. The production of automobiles under the planning of the FMMB used materials from the central materials agency, and correspondingly the automobiles were also distributed by the central materials agency. The production under local governments' planning used the materials from local governments and the distributing authority was also in the hand of local governments. In other words, there was a multilayered structure of rent-allocation in the auto industry between the central government and local governments. This complicated structure made it much difficult to control over local governments of different levels due to the inherent information asymmetry and geographical remoteness.

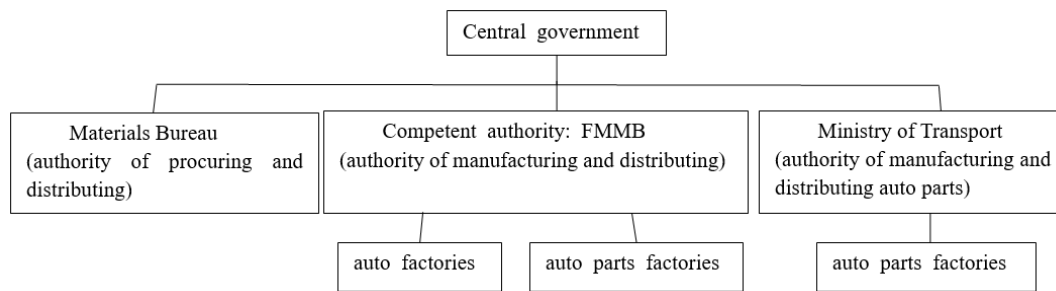


Figure 4. Fragmented Structure of Rent Allocation in the Central Level

Multilayered Structure of Rent Allocation between Central and Local Level

The authority of planning and governing auto industry was also shared between the central government and local governments from the very beginning. As the governing industrial ministry for the auto industry, FMMB governed directly only FAW and several other auto-parts factories at the beginning. In addition, some special purpose vehicle factories and auto-parts factories already existing in Shanghai and other cities were not under the charge of FMMB. By 1957, the local special purpose vehicle plants had increased to 17 and the auto-parts factories (including motorcycle-components enterprises) had increased to 95 (*China automotive industry yearbook 1992:94*). Only a few of these enterprises were under the direct control of the FMMB. Even in the most centralized time in 1964, there were only 75 auto related enterprises under direct control of FMMB while the total number amounted to 417 (*China automotive industry yearbook 1992:95*).

The decentralization between the central and local governments aggravated this situation. During the first wave of decentralization reform from 1958 to 1960, most of the central auto related enterprises except for FAW and Nanjing Auto plants were transferred to the local governments. During the second wave of administrative decentralization from the late 1960s, most of the auto plants and parts factories including FAW were put under the charge of local governments. The authority of planning, procuring, governing production and distributing also was divided between the central and the provincial governments. The production of automobiles under the planning of the FMMB used materials from the central materials agency, and correspondingly the automobiles were distributed by the central materials agency. On the contrary, the production under local governments' planning used the materials from local governments and the distributing authority was also in the hand of local governments (Liu, 2003).

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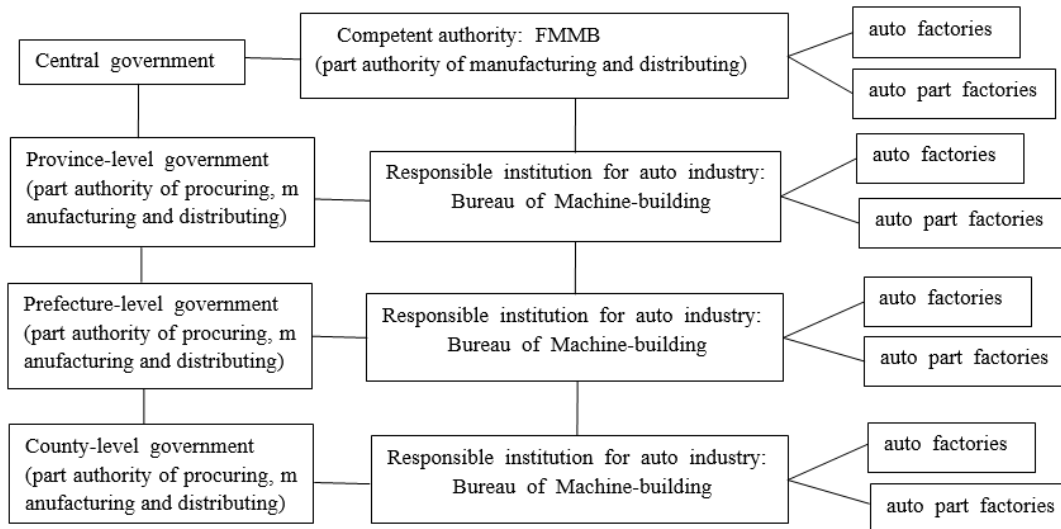


Figure 5. Multilayered Structure of Rent Allocation between Central and Local Level

Rent Seeking

Local Governments as the Principal Rent-seekers

When making the development plan for auto industry at first, in order to meet the needs of development of national economy and military mobility, the central government attempted to build large-scale state owned auto enterprises under its direct control. When FAW started in 1953, a second large-scale auto plant, Second Auto Works(SAW), with a double capacity during the late period of the first FYP(1953-1957) was also being prepared and a preparatory group for it was quickly set up. Then, a third large-scale auto plant was put on the agenda even when the SAW was being prepared in the mid-1960s.

In order to make sure that the limited resources could be put into the selected SOEs, the central government issued a strict administrative regulation for the project approval in 1952. It stipulated that the central government itself should approve all the projects, including basic construction projects and technical transformation projects, above the limited amount. The limited amount for the auto industry is RMB 300 million, and the approving authority for auto projects between RMB 200 thousand to RMB 300 million is in the hand of FMMB. Considering the huge investment for auto projects, almost all the new auto related factories should be approval by the central government or FMMB. In other words, auto industry was protected by strict barrier to entry by the central government.

Despite such strict regulation, the result was beyond expectation. The auto industry as a whole ended up with fragmented production structure and low production capability. By the end of 1978, the number of auto plants increased to 55, producing various types of trucks, buses and special utility vehicles, and there were 173 special purpose vehicle factories(See Figure 2). Although the reasons for such bad results are complicated, rent-seeking by the local governments are important responsible factor to explain it. As mentioned above, the kind of rents was in the form of surplus bound to all kinds of resources. The local governments knew well that if they built their own enterprises and kept the managerial authority in their own hand, they could obtain more resources of these kinds. Thus, they wished to obtain greater share of these rents, by inviting in their own jurisdiction more auto enterprises that were supposed to be built and financed with national capital but to benefit mainly to the local units. This activity exactly constitutes the typical rent-seeking model. The difference is that in China auto industry the principal actor of rent-seeking activity was not entrepreneur, firm nor interest group but local government itself.

One clear aspect of rent-seeking in auto industry is how local governments avoid the strict regulation of project approval of the central government to build auto enterprises (See Table

3). Before 1958, almost all of the investments in auto industry were done by central government. From 1958, the investment by local governments increased. In the period from 1958-1963, the share of local governments' investment even exceeded a half, and from 1963-1965, the share of local governments' investment was close to a half. By the end of 1978, the accumulated investment by the local governments amounted to RMB 1.18 billion which accounted for 24% of the total investment RMB 4.88 billion (*China automotive industry yearbook 1983:186-187*).

Table 3
Central and Local Investment in the Auto Industry, 1949-1978(RMB Billion)

Years	1949	1953	1958	1963	1966-	1971-	1976	1977	1978
Investment	-52	-57	-62	-65	70	75			
Total investment(T)	0.02	0.66	0.20	0.19	0.84	1.94	0.36	0.32	0.35
Central investment(C)	0.02	0.66	0.09	0.10	0.61	1.57	0.23	0.20	0.22
Local investment(L)	0	0.09	0.11	0.09	0.23	0.37	0.13	0.12	0.13
L/T(%)	0	0	55.0	47.3	27.4	19.1	36.1	37.5	37.1

Source: *China automotive industry yearbook 1983:186-187*

On the other hand, the periods of more central investment coincident with the periods when FAW, Sichuan Auto Works, Shaanxi Auto Works and SAW were built. Only these 4 of the entire 55 auto plants were directly built by the central government. Most of the auto plants, the special purpose vehicle plants and auto-parts plants were built by local governments, and basically run by SOEs lacking any of entrepreneurial spirit. These auto plants in small-scale with low technology and wrong motive could not make good use of economies of scale. It resulted in huge waste of scarce capitals that was so short in this stage of China, and hampered the efficiency in auto industry.

Local governments not only built auto plants, auto related enterprises by themselves but also struggled to avoid the takeover of their enterprises by the central government from time to time. For example, in the process of concentrating auto structure by the CNAIC in 1964, local governments exerted to retain the control of their own auto related enterprises by all means (Chen, 2003). The initial purpose of building CNAIC was to integrate all the principal auto plants and auto-parts factories scattered in different ministries and locals into one big corporation as a trust. By the end of 1963, there were more than 300 auto-parts enterprises (including motorcycle-components enterprises). Almost all of them were under the charge of local governments except 97 factories were under direct control of MOT. At last, CNAIC took over 49 auto-parts factories from MOT, a little more than a half. On the contrary, it only took over a few auto-parts factories from the local governments. Many local auto related enterprises, such as 55 in Shanghai, including the finished auto plant Shanghai Auto Factory, were not taken over because of the strong power of Shanghai Municipal Government. When the CNAIC planned to take over the other local auto-parts enterprises, many local governments changed the names of their auto-parts enterprises into repair shops or special purpose factories by inquiring the information on the takeover in advance. The result was that CNAIC only took over 11 factories from local governments when the total local auto related enterprises exceeded 300. This aspect constitutes the rent-protection activity by local governments, which is a special form of rent-seeking by resisting to transferring the previously acquired rents to other agent like the central government.

State-owned Enterprises Became Rent-seekers with Help of Local Governments

The rents in the first stage were mainly in the form of price gap between the lower planned prices and the higher market prices. Any enterprise would benefit once it obtained investment, foreign exchange, and materials supply permission from the governing authority of auto industry. Recognizing this point, the state made two different institutional arrangements. The first one is the state ownership. There were only two kinds of enterprises: SOEs and collective enterprises (owned by township governments and villages). The SOEs were classified into two categories according to their importance and size: central SOEs, large and important, governed directly by different industrial ministries under the State Council; and local SOEs, small and less important, governed by different levels of local governments. Due to the nature of auto industry, almost all the auto related enterprises were SOEs, central or local.

The second one was an accounting system of unified revenue and unified appropriation, which was enforced in all the SOEs to make sure they loyally follow the state's direction. Under such circumstances, all materials used by SOEs were supplied by the government through planning, and all their output were sold to the state, which then allocate them according to plan. All revenue was remitted to the state. SOEs remitted not only profits but also depreciation to the state, both of which were included in the government revenues. Investment in basic construction, funds for renovating fixed assets and for technological upgrading, expenses for pre-production tests, and funds for miscellaneous capital acquisition were all appropriated in fixed amounts by the departments of finance in government. The seasonal and temporal capital beyond the pre-approved amount were provided by the bank. Both workers' recruitment and their wages were arranged by the state according to plan (Lin et al., 2003:55). In a word, the SOEs, central or local, would be only a kind of manufacturing shop without any decision power and managerial autonomy. In this sense, rent-seeking activities by enterprises under the centrally planned economy were uncommon. If there was any, rent-seeking of enterprises were only intended to expand their business (Lin et al., 2003:211).

However, there is always an exception to every rule. Some small-size auto enterprises, with the help of local governments, became rent-seekers. During the two waves of administrative decentralization, especially the second one started from the late 1960s, quite a few central state-owned auto factories and even FAW were degraded as local enterprises, and many small-sized auto plants and auto parts factories were built by the local governments. In the two years of 1971 and 1972, the numbers of auto plants reached a highest record of over 100, and one province (Jiangxi) even had 14 auto plants(Liu, 2003:12). Because Culture Revolution (1966-1976) crippled central plan system, input allocations to some small SOEs were not secure. Some small enterprises were outside the central planning scope, so they could not get raw materials and other resources within the plan from the beginning. Therefore, horizontal cooperation emerged between these enterprises and different regions with the help of local governments. The small auto enterprise exchanged their auto products for raw materials by barter trading in a semi-legal black market (Liu, 2003:13). "Semi-legal" means that those exchanges were support from local governments, but did not obtain a formal approval from the central government. Thus a dual price system, the planned price and the black market price, emerged. Many of the small-sized auto enterprises survived under the dual price system. In this situation, auto enterprises without sustainability to secure profits for themselves had become rent-seekers searching for the support of the local governments.

CONCLUSION

Many studies deny the existence of rent-seeking activities, even the existence of rents, in the centrally planned economy before the market-oriented reform. They argue that, under the

centrally planned economic system, almost all the production factors were controlled by the central government and their production and distribution were strictly implemented according to the plan. Under such circumstance, individual ministry and local government did not have its own interests and there was no need to seek rents (He,1994; Liu, 2008: 164-173).

However, this paper finds that under the centrally planned economy system, there was a kind of rent in the form of “surplus” as confirmed by the studies of Fung (1987) and Hu (2009) or “institutional rent” in Lin et al. (2003) created by the central government in order to fast build an auto sector with state owned large-scale auto plants like Soviet Union. The surplus in the form of interest rates of bank loans, foreign exchange rates, and price gap in varieties of resources that is the major one in auto industry, were created by the low-interest-rate policy, the low-exchange-rate policy and the low-price-control policy. The target beneficiary of it was the whole auto industry.

The traditional governing system in the auto industry under the centrally planned economy, following the model of Soviet Union, started from the mid-1950s, but unlike its counterpart in Soviet Union, the structure of rent allocation for auto industry was fragmented in the central and multilayered among the central-local governments from the day of its birth. From the beginning, there was a fragmented structure of rent allocation in the central level, and a multilayered structure between the central government and local governments. Compared to Soviet Union, this complicated structure could not enforce a strict control over local governments.

Therefore, rent-seeking activities by local governments emerged as a common phenomenon due to the objective existence of an “M-form hierarchical structure” which made local governments own some autonomy (Qian and Xu,1993). To obtain a greater share of the rents, local governments did not only create their own auto plants and auto related enterprises ignoring the central government’s strict regulation but also avoided the takeover of their enterprises by the central government. The two waves of administrative decentralization strengthened the local governments and rent-seeking activities by local governments became more widespread under the centrally planned economic system prior to the reform starting from 1978. State-owned auto enterprises also became rent-seekers with the help of local governments despite of tight control by the central government through a whole state ownership and an accounting system of unified revenue and unified appropriation. Many small local state-owned auto enterprises captured rents by barter trading in a semi-legal black market.

In other words, the multilayered mode of rent utilization had already emerged in the auto industry under the traditional planned economy system. Rent creator and allocators scattered in the different levels of the central government and local governments. In the central level, as the principal rent creator and allocator, the central government did not have the authority of creating and allocating rents in one integrate agency but dispersed in different ministries. In the local government level, local governments, especially provincial governments became the main types of rent allocators as well as rent seekers during the periods of decentralization reform. The fragmented and multilayered mode of rent utilization lasted a long time through the mixed economy after the market-oriented reform until it disappeared in the early 2000s.

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