From Player to Referee

The Rise of the Regulatory State in China

Xiaobo Lü

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Why Regulatory State?

- Developmental state: “Development is the hard truth” (Deng)
- Successes in the early reform period (1980-1995)
- Decentralization and local governments as the “player”
- Problems in the reform deepening stage (1995-)
  - State predation
  - Wasteful investment
  - Diminishing central fiscal and macroeconomic capacities
  - Weak regulatory capacity
  - Player/Coach/Referee: Not fair game
A Comparative Context

- Rise of the regulatory state is not new
- Influence of neo-liberal doctrines
- Globalization
- Bottlenecks and difficulties in NIEs
- Post-communist transition and market development
- Historical timing: *the emergence of the regulatory state in post-socialist market authoritarianism*
“Hasn’t China always had the regulatory state?”

- The state does many things
- State regulation in the command economy and market economy
  - Rationale
  - Goals
  - Scope
  - Instruments/methods
Regulate or deregulate?

- Economic regulation
  - Sector-based
  - Rates/prices

- Social regulation
  - Not sector-based,
  - e.g. occupational safety
  - Environment protection
  - Food and drug
Case: Fake Baby Formula
(April 2004)
Interests, Ideas, and International Rules Matter

- Bureaucratic interests
  - Who gets what
  - Resistance or not
- Goals of governance reforms
  - “From player to referee”
  - “Small government, big society”
  - The rule of law
- WTO and MNCs
  - Commitment to reducing barriers
  - Adopting the rules of the game
A New Game

- 1998 was a turning point
- Separation of government from business: elimination of many economic ministries
- Increase regulatory power, reducing managing and control power of existing ministries
- Establish new regulatory agencies; strengthen existing ones
- Integrate regulatory power (independence)
- Retain some state monopolies, but with goal of future reforms (e.g. railway, hospitals)
Chinese Regulatory Agencies

New Regulatory Agencies
CSRC, CIRC, SAPS

Old Regulatory Agencies
SAIC, SEPA

Spin-offs and Restructured
SFDA, CBRC, BSQ

Ministries with Strengthened Regulatory Power
MOH, MII, MOA
Good Referee? Fair Game?

- Getting better at it: increased regulatory capacity
  - Professionalization
  - Integrated regulatory regime
- Some pockets of efficiency: improved market environment
- “Bought off” resistance?
- The advance of the rule of law, however limited
- More transparency and open
Problems and Challenges

- Weak state exit mechanisms
  - Lack of strong self-regulatory institutions (State creates and watches social institutions)
- Lack of clear mandates: ex post facto legislation and over-lapping jurisdictions
- Entrenched bureaucratic interests (e.g. antitrust legislation)
- Rent-seeking by regulatory agencies/agents
- Regulatory cost: managing the trade-offs--
  - B/t state and societal regulation
  - B/t deregulation and re-regulation
  - B/t more regulation with higher cost but more safety and less regulation with less cost but more risks
Implications

- **Political Implications:**
  - Limited government: what the state *should* do
  - Civil society development
  - Change in governance
    - Transparency
    - Procedural consciousness

- **Economic Implications:**
  - Improving market conditions
  - Private sector growth
  - Macroeconomic and regulatory capacity
  - Referee and coach
Unfinished Game

- Evolving story: e.g. SDA to SFDA, more changes are coming (MII, MOR are next?)
- Will define the fate of the reforms in the next decade
- More research is needed
Thank You!