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# **From Player to Referee**

## **The Rise of the Regulatory State in China**

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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)

New Regulatory Agencies

CSRC, CIRC, SAPS

Old Regulatory Agencies

SAIC, SEPA

Chinese  
Regulatory  
Agencies

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

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**Thank You!**