The installation of a new leadership team by the Eighteenth Party Congress in October 2012 was accompanied by significant discussion among Chinese intellectuals and in the media about restarting the reform agenda that many perceived to have lain dormant in the preceding years. A key part of that agenda, sometimes lumped together with economic reform more generally, but deserving its own special analysis, is the topic of regulatory reform. The relationship between the government and the market, as well as the functions and structure of government agencies, require further clarification in order to push forward the overall reform agenda. In this article, I will provide an introduction to regulatory reform in China over approximately the past thirty-five to forty years. First, I will briefly introduce some characteristics of the earlier Chinese approach to regulation and its disadvantages. Second, I will discuss what steps China has taken thus far in pursuit of regulatory reform since the opening-up period of the late 1970s and early 1980s. Finally, I will share my observations regarding current problems in the area of Chinese regulation, and key challenges to further necessary reforms.

I. THE TRADITIONAL APPROACH

The approach to regulation in China under the Chinese Communist Party ("CCP") before 1978 was to manage economic activity through a very centralized regime. The government
allocated or controlled all resources and activities of individuals as well as enterprises. Under centralized planning, each level of government would make its own plan according to the requirements of the central government. Any activities beyond the original plan were deemed illegal and incurred punitive consequences.

In urban areas, there were only two types of enterprises prior to 1978: state-owned enterprises and collectively-owned enterprises. Most enterprises were controlled by government agencies, and all of their activities, including production and sale of goods, were planned in advance by the government. Each individual was affiliated with his or her own work-unit, which provided all of their basic needs—including salary, child care, education, health care, and housing—though the quality of provided goods and services were not always high. In rural areas, the land belonged to the collective, and every individual farmer had to be a member of the People’s Commune (which played a role similar to urban enterprises). All products of the People’s Commune were purchased by the State for allocation, and farmers or communes had no rights to otherwise dispose of any surplus products. For quite a long time, farmers were treated as “capitalists” even if they traded food items for their own personal consumption.

This centralized and planned approach to regulation was quite successful for the first several years after the inception of the PRC as a vehicle for the government to allocate resources and stimulate national industrialization. But this approach was limited
by fundamental problems: it strangled individual creativity and
innovation, and produced severe scarcities. Consequently, by 1978,
China had reached the edge of collapse. To give a few examples,
annual per capita food consumption in 1976 was 191.5 kilograms,
which was fewer than the 205.5 kilograms per capita of food
consumed in 1956. The average annual income for farmers in 1976
was only 62.8 yuan, and there were 250 million people living in
poverty. To combat these and other scarcities, Deng Xiaoping
initiated a large scale regulatory reform starting in 1978.

II. REGULATORY REFORM TO DATE

A. Separation of Functions

Regulatory reform in China over the past thirty-five to forty
years has involved disaggregating various governmental functions
and granting individuals, enterprises, and the society at large ever
more space and freedom. More specifically, the Chinese
government has promoted four types of separation: (i) separation
between the government and enterprises, (ii) separation between
the government and the owners of state assets, (iii) separation between
the government and public service providers, and (iv) separation
between the government and society.

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8 Chen Donglin (陈东林), Wenhua Dageming Shiqi Guomin Jingji Zhuangkuang Yanjiu Shuping (文化大革命"时期国民经济状况研究) [述评] [Review of Research on the National Economic Conditions in the Period of “Cultural Revolution”], 2 Dangdai Zhongguoshi Yanjiu (当代中国史研究) [Contemporary China History Studies] 71 (2008).
9 See Yang Xiancai & Zhang Qizhi, Zhonghua Renmin Gongheguojuan (中国历史：中华人民共和国卷) [Chinese History: The People’s Republic of China Volume] 323 (2002) (describing poverty in terms of annual income and the amount it takes to have a healthy lifestyle).
11 See Hu Jintao, Jianding Buyi Yanzhe Zhongguo Tese Shehuzhuyi Daolu Qianjin, Wei Quanmian Jiancheng Xiaokang Shehui Er Fendou—Zai Zhongguo Gongchandang Dishibai Quanguo Daibiao Dahui Shang de Baogao (坚定不移沿着中国特色社会主义道路前进，为全面建成小康社会而奋斗—在中国共产党第十八次全国代表大会上的报告) [Firmly March on the Path of Socialism with Chinese
Party and government agencies has also been discussed, and in particular was considered at the Thirteenth Communist Party Congress in 1987, though not again to the same extent since then.\footnote{12}

In order to reduce resistance to these different types of reform, the Chinese government adopted an incremental strategy.\footnote{13} For example, the household contract responsibility system adopted in rural areas in the late 1970s liberated farmers from collective communes, but still preserved some aspects of collectivism.\footnote{14} Beginning in the early 1980s, the Chinese government began to encourage development of the private sector in urban areas.\footnote{15} This


\footnote{13} See Li, supra note 2, at 47 (discussing the incremental reform strategies adopted in China).

\footnote{14} The household responsibility system was a practice introduced in China in 1981 by which peasants were given certain production quotas; whatever food they grew beyond the quota was sold in the free market at the unregulated prices. See generally Justin Yifu Lin, The Household Responsibility System in China’s Agricultural Reform: A Theoretical and Empirical Study, 36 ECON. DEV. & CULTURAL CHANGE S199 (1988) (discussing the prevalence of the household responsibility system as it relates to changes in rural China). The household contract responsibility system didn’t change collective ownership of land. See Cai Hua (蔡华), Tudi Quanli, Falü Zhixu he Shehui Bianqian—Jiating Lianchan Chengbao Zerenzhi de Falü Shijiao Fenxi (土地权利,法律秩序和社会变迁—家庭联产承包责任制的法律视角分析) 1 ZHAN LUE YU GUAN LI 100, 102 (2000) (stating that the household contract is actually an agreement regarding common services and taxation that is reached by the rural community, peasants and the nation, rather than a common civil contract).

\footnote{15} In 1981, the Eleventh Central Committee of the Communist Party of China passed a resolution that pointed out for the first time that the state economy and the collective economy are the basic forms of the Chinese economy. Guanyu Jianguo Yilai Dang de Ruogan Lishi Wenti de Jueyi (关于建国以来党的若干历史问题的决议) [Resolution on Certain Questions in the History of our Party Since the Founding of the PRC] (promulgated by the Sixth Plenary Session of the Eleventh Cent. Comm. of the Communist Party of China, effective June 27, 1981). In July of the same year, the State Council issued Provisions on Township Non-Agricultural Micro-Economic Policy. Guanyu Chengzhen
program included absorption of foreign investment, which helped to provide new models for state-owned enterprises and collectively-owned enterprises, and cleared the way for their eventual restructuring in the mid-1990s. This later reform included the large-scale shutting down of factories and massive layoffs, as well as the promulgation of the Company Law in 1993 (which, in essence, was intended to cut the link between government and enterprise). During this process, there were many protests by laid-off workers, the reverberations of which are still felt today.


17 The commonly-held principle of separation of ownership and control is considered to a cure for the ills of traditional state-owned enterprises. According to Article 3 of the Company Law, a company is an enterprise with legal person status, has independent corporate property, enjoys all corporate property rights, and assumes civil responsibility for its debts with all property. Thus, a company shall enjoy all legal personhood and property rights (as formed by its shareholders including the state), shall enjoy civil rights, and shall bear civil responsibilities pursuant to law. Zhonghua Renmin Gongheguo Gongsi Fa (中华人民共和国公司法) [The Company Law of the People’s Republic of China], art. 3 (promulgated by the Standing Comm. Nat’l People’s Cong., Dec. 29, 1993, effective July 1, 1994).

18 See, e.g., Huang Langhui et al., Guoqi Gaige Wenti Duo—Laizi Divixian de Diaocha Baogao (国企改革问题多—来自第一线的调查报告) [Lots of Problems in State-owned Enterprises Reform—A First-line Survey], ZHONGGUO GUOQING GUOLI 30 (1998) (noting that laid-off workers is one of the biggest problems in state-owned
After the transformation of state-owned enterprises (“SOEs”) and collectively-owned enterprises, and in accordance with the Company Law, SOEs gained the status of independent legal persons rather than affiliates of various government agencies. In principle, SOEs now had to compete with various market players. However, since various government agencies remained major “shareholders” of these SOEs, official priority continued to be placed on the accumulation of state assets and protection of SOEs. Consequently, it proved very difficult for government agencies to adequately implement the law and treat all market players fairly.

In order to promote a more level playing field and encourage competition, the Chinese government established the State-Owned Asset Supervision and Administration Commission (“SASAC”) in 2003. SASAC is a special entity—it is a non-governmental body that embodies the

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19 Zhonghua Renmin Gongheguo Gongsi Fa (中华人民共和国公司法) [The Company Law of the People’s Republic of China], art. 5 (promulgated by the Fifth Session of the Eighth Nat’l People’s Cong., effective July 1st, 1994).

20 See Liu Junhai, Woguo Gongsi Fa de Tedian (我国公司法的特点) [The Features of the Company Law of China], FAXUE ZAZHI 16, 16–17 (1994) (stating that the promulgation of the Company Law of China introduced a new approach to planning the economy, under which corporate legislation is based on principles of responsibility and corporate governance rather than the ownership of investors; this could remove unfair competition between enterprises established by investors with different ownership).

21 Jin Chengdong, Minying Jingji de Xingzheng Fa Wenti Ji Qi Gaige (民营经济的行政法问题及其改革) [Problems and Reform of Administrative Law of the Private Sector], 36 ZHEJIANG DAXUE XUEBAO (RENWEN SHEHUI KEXUE BAN) 90, 92 (2006).

22 The SASAC was founded according to the Decision of the First Session of the Tenth National People’s Congress on the Plan for Restructuring the State Council, Dishijie Quanguo Renmin Daibiao Dahui Dyici Huiyi Guanyu Guowuyuan Jigou Gaige Fangan de Jueding (第十届全国人民代表大会第一次会议关于国务院机构改革方案的决定) [Decision of the First Session of the Tenth Nat’l People’s Congress on the Plan for Restructuring the State Council] (promulgated by the First Session of the Tenth Nat’l People’s Cong., effective Mar. 10, 2003) ST. COUNCIL GAZ. 9. According to the Arrangement on Major Responsibilities, Internal Organizations and Staffing of SASAC approved by the State Council, SASAC is the organization authorized by the State Council to perform the responsibilities as the investor of the State-owned asset on behalf of the central government. Guowuyuan Guoyou Zichan Jiandu Guanli Weiyuanhui Neishe Jigou he Renyuan Bianzhi Guiding (国务院国有资产监督管理委员会主要职责内设机构和人员编制规定) [Arrangement on Major Responsibilities, Internal Organizations and Staffing of SASAC Approved by the State Council] (promulgated by Gen. Office of the State Council, effective Apr. 25, 2003) ST. COUNCIL GAZ., 21.
concept of separation between government and state asset owners. SASAC is responsible for the management of state-owned assets, relieving nearly all government agencies from this role. With its establishment, government agencies were expected to enforce the law equally and fairly against SOEs, like all market entities.

Prior to 1978, the government also monopolized provision of public services, either through state-owned and collectively-owned enterprises or the People’s Communes (in rural areas), or through other public service providers affiliated with government agencies. After the initial reform of state-owned and collectively-owned enterprises, and the dismantling of the People’s Communes, the responsibility of public service provision was left entirely to the government itself. This overwhelming responsibility made it difficult for the government to provide any public service effectively.

To address this “public service provision” problem, the Chinese government has since endeavored to separate the roles of government and public service providers. In the early 1990s, certain public services, including housing and childcare, were pushed entirely onto the private market. The responsibility to

23 Arrangement on Major Responsibilities, supra note 22.
24 Articles 4 through 7 of the Interim Regulation on Supervision and Administration of the State-Owned Assets of Enterprises make clear the six specific functions of SASAC: (1) act as the state-owned assets’ investor in accordance with Corporate Law of People’s Republic of China and related administrative regulations; (2) guide and push the reform and restructuring of the state-owned enterprises; (3) dispatch the supervisory board to some large enterprises on behalf of the state and be in charge of daily management of the supervisory board; (4) appoint, remove and evaluate the executives of the enterprises through legal procedures and grant rewards and punishments according to their performance; (5) supervise the maintenance and appreciation of state assets’ value for those state-invested enterprises and reinforce the management of the state-owned assets; and (6) perform other duties of state-owned assets’ investor and undertake other issues assigned by the government at the same level. Qiye Guoyou Zichan Jiandu Guanli Zanxing Tiaoli (企业国有资产监督管理暂行条例) [Interim Regulation on Supervision and Administration of the State-owned Assets of Enterprises] (promulgated by No. 378 Order of the State Council, May 13, 2003, effective May 27, 2003) ST. COUNCIL GAZ., 5.
26 See, e.g., Zhongguo Jiaoyu Gaige he Fazhan Gangyao (中国教育改革和发展纲要) [Outline of China’s Educational Reform and Development] (promulgated by the Cent.
provide other public services, such as education and healthcare, was to be shared by private providers and the state, which retained some basic responsibilities. Compared to enterprise reform, reforming the provision of public services has proven much more difficult, with limited progress so far. This is largely due to the fact that such reform is closely connected with the development of various non-governmental social organizations (“NGOs”), which remain subject to rigorous controls (such as the requirement of a government or Party sponsor for registration). Drawing on the lessons learned from mass layoffs in the mid-1990s, reformers have been more cautious in their approach to this issue in order to avoid social unrest.

B. Creating a New Regulatory Framework

Altogether, through the disaggregation of functions outlined above, the Chinese government has unburdened itself of many unnecessary tasks and responsibilities. This gave more power and

Comm. of CPC and the State Council, Feb. 1993) ST. COUNCIL GAZ., 143–60 (stating its goal “to change the pattern of government undertaking education single-handedly,” and gradually establish a system of running educational institutions mainly by governments complemented with social resources); Guowuyuan Guanyu Jixu Jiji Wentuo de Jinxing Chengzheng Zhufang Gaige de Tongzhi (国务院关于继续稳妥地进行城镇住房制度改革的通知) [Circular of the State Council on Further Promoting the Reform of the Urban Housing System Positively and Safely] (promulgated by the State Council, June 7, 1991) (putting forward ideas to promote reform of the housing system in multiple ways, such as by incrementally raising rent, collecting rent deposits, applying new regulations to newly constructed houses while applying old regulations to the existing houses, building houses with funds collected by buyers, and selling public housing).

27 See, e.g., Minban FeiQiye Danwei Dengji Guanli Zanxing Tiaoli (民办非企业单位登记管理暂行条例) [Interim Regulations on the Registration and Administration of Private Non-Enterprise Organizations], art. 8 (promulgated by the State Council, Oct. 25, 1998), ST. COUNCIL GAZ. (explaining an NGO’s role in public service reform); Shehui Tuanti Dengji Guanli Tiaoli (社会团体登记管理条例) [Regulations on the Registration and Administration of Social Organizations], art. 9–10 (promulgated by the State Council, Oct. 25, 1989), ST. COUNCIL GAZ., 779–80 (explaining the restrictions on NGOs with regards to social reform).

28 See, e.g., Jiang Handi & Kuang Sheng, Woguo Shiye Danwei Gaige de Nandian yu Duuce (我国事业单位改革的难点与对策) [Difficulties of Reform of Public Institutions and Countermeasures], 10 DANGDAI CAIJING 17, 17 (2005) (arguing that the reform of public institutions should take into account the law enforcement, social security back-up and restructuring of relevant rights and titles); Wang Lannining, Gaige Kaifang Yilai Woguo Shiye Danwei Gaige de Lishi Huigu (改革开放以来我国事业单位改革的历史回顾) [Review on Public Institutions Reform Since 1978], 6 ZHONGGUO XING ZHENG GUANLI 7 (2010) (explaining the history of reform of public institutions).
autonomy to individuals, enterprises, and civil society. This increase in private autonomy is one of the main accomplishments of regulatory reform in China thus far and merits recognition. However, after the transformation of government functions, traditional ways of government regulation have proven to be inadequate. Under the centralized or planned economy, it was quite easy for the government, at every level, to manage economic and social affairs, because everything was state-owned—from Chinese citizens’ homes, to their jobs, to their health care. But transition away from state ownership has created the need for the government to establish a new, modern regulatory framework.

There have been three key dimensions to the regulatory reforms that have been undertaken in further response to this need: (i) restructuring government agencies, (ii) redefining the government’s role, and (iii) establishing new tools for regulation. First, regarding the structure of government agencies, government ministries used to manage everything in their respective sectors, including nominating leaders for state-owned and collectively-owned enterprises, and determining enterprise inputs and outputs.\(^{29}\) In 1998, fifteen ministries, and in particular eight “sector management” (hangye guanli) ministries—including ministries in the areas of electricity, coal, and electronics—were abolished by the State Council under the leadership of then premier Zhu Rongji.\(^{30}\) This institutional restructuring confirmed the emergence of—and gave further impetus to—the development of a new kind of government agency that was focused on “regulation” (jianguan) rather than sector management, and enjoyed more independence than the general ministries.\(^{31}\) Examples of this new kind of regulatory agency include the China Securities Regulatory

\(^{29}\) Luo Gan, Guanyu Guowuyuan Jigou Gaige Fang’an de Shuoming (关于国务院机构改革方案的说明) [Explanation of the Plan for Restructuring the State Council] (Mar. 6, 1998) ST. COUNCIL GAZ., 408.

\(^{30}\) Many sector management ministries were transformed into holding companies. See, e.g., Qian Jin, Luan Wuguo Guoyou Konggu Gongsi de Zujian yu Fazhan (论我国国有控股公司的组建与发展) [On the Formation and Development of State-owned Holding Company], 6 JINGJI YANJIU 31, 40 (1996) (discussing relevant research on the significance of this transformation).

\(^{31}\) See Ma Yingjuan, Jianguan Jigou yu Xingzheng ZuzhiFa de Fazhan (监管结构与行政组织法的发展) [Development of Regulatory Agency and Administrative Organizational Law], ZHEJIANG XUEKAN 16 (2007) (describing the regulatory agency development and its impact on administrative law).
Commission (“CSRC”), established in 1992 following the infamous Shenzhen “stock scramble” 32; the State Food and Drug Administration (“SFDA”) and State Insurance Regulatory Commission (“SIRC”) established in 1998; and the State Electricity Regulatory Commission (“SERC”) and China Banking Regulatory Commission (“CBRC”), both established in 2003. The logic underlying the creation of all these functionally more limited regulatory agencies, though never openly stated, has been to disaggregate the policy-making function of the general ministries from the task of regulation, as well as to promote a concept of regulatory independence of regulation as understood in more developed countries.33

In 2008, regulatory reform advanced a step further with the introduction of the so-called “super ministry” model. 34 This terminology refers to combining several agencies with similar functions into new single ministries like the Ministry of Industry & Information Technology (“MIIT”) and the Ministry of Human Resources & Social Security (“MHRSS”), to which extensive jurisdiction and policy-making powers are granted.35 The super ministry model is expected to reduce duplication of functions and

32 *See* Liu Hongru & Nan Yan, *Zhengjianhui Dansheng de Taiqian Muhou* ([Front Stage and Behind the Scenes of the Birth of the China Securities Regulatory Commission], *ZHONGGUO JINGJI ZHOUKAN* 64 (2009) (noting that Liu Hongru, first Chairman of the CSRC, recalled the establishment of the agency, including how the agency learned regulatory lessons from Taiwan, Hong Kong and other developed regions).


overlapping management among central departments. By reducing inefficiency and bureaucracy, bigger ministries should result in smaller government, with fewer opportunities for corruption and dereliction of duty. Altogether, through these various rounds of restructuring, the number of cabinet-level ministries was reduced from forty-five in 1982 down to twenty-seven in 2008.

In March 2013, with the aim of further reducing the government’s role and promoting non-governmental and market forces, the Chinese government conducted another round of restructuring, dismantling and merging several important Cabinet-level ministries, and further reducing the total number from twenty-seven to twenty-five. The vast and influential Ministry of Railways was broken up, and the National Population and Family Planning Commission—the powerful family planning authority—was merged with the Ministry of Health. To boost food and drug safety, this restructuring plan established a ministerial-level China Food and Drug Administration (“CFDA”), taking over the respective duties of the State Council’s Food Safety Office, the State Food and Drug Administration, and the food supervision branches of the General Administration of Quality Supervision, Inspection, and Quarantine and the State Administration for


37 See Zhao Fei, Sanshini Lai Wuci Zhengfu Jigou Gaige Dapandian (三十年来五次政府机构改革大盘点) [Overview of the Five Rounds of Government Institutional Reform in the Past Thirty Years], 3 ZHONGGUO BAOBAO 67–68 (2008) (overviewing the five rounds of reform: (1) restructure of age structure of cadres, (2) shift in the functions of the government, (3) improvement of the adaptability to market economy, (4) more extensive and in-depth reform, and (5) further shift in governmental functions to embrace the WTO).


39 Id.
Lastly, the State Electricity Regulatory Commission, the first independent regulator of China’s infrastructure industries, was dissolved and its responsibilities taken over by a reorganized National Energy Administration, under the main state planning authority, the National Development and Reform Commission (“NDRC”).

Second, on the redefinition of the government’s precise role, the transformation has been from an “all-in-one” control of all facets of social and economic life to a more limited focus on four core aspects, as outlined by Working Guidelines of the State Council: (i) economic adjustment, (ii) market regulation, (iii) social administration, and (iv) public service. This shift has been reinforced by laws, such as the 2003 Law on Administrative Licensing, which carve out a larger role for the market, civil society, and individuals, and place new restrictions on governmental intervention. For example, Article 13 of the Law on Administrative Licensing specifies that administrative licenses may not be necessary if the relevant matters may be regulated by market competition mechanisms or other more private means, or at least later addressed by post hoc administrative supervision.

Third, regarding the tools for regulation, with “command and control” tools such as licensing, sanctions, inspections, and enforcement well established in various administrative laws,
Chinese authorities are now trying to promote innovation in social administration by introducing more incentive-based regulatory tools, such as tradable allowances, franchise bidding, adverse publicity, and cooperative regulation.  46 Many non-formal modes of administration have also been created or used in practice, and they supplement and enrich legal methods that focus on approval and sanction.  47

The above analysis shows the ways in which regulatory reform has been accomplished in China in the past thirty-five to forty years. One important characteristic to note is that this has been an incremental reform. This incrementalism can be distinguished from the “shock therapy” approach pursued in the former Soviet Union and Eastern European countries.  48


48 See generally JEFFREY SACHS, UNDERSTANDING SHOCK THERAPY (1994) (showing that shock therapy often involves radical reform programs carried out over a relatively short period of time). Jeffrey Sachs, former professor of economics at Harvard University and director of the Earth Institute at Columbia University, who helped develop shock therapy reform programs in Latin America and Eastern Europe, characterizes shock therapy as “a rapid, comprehensive, and far-reaching program of reforms to implement ‘normal’ capitalism.” Jeffrey Sachs, Address at the Tanner Lectures on Human Values at the University of Utah: Shock Therapy in Poland: Perspectives of Five Years (April 6–7,
incremental regulatory reform in China can be deemed successful according to various indicators of economic development and living standards. For example, from 1978 to 2012, the per capita annual income of urban residents increased from 343 yuan to 24,565 yuan; that of rural residents increased from 134 yuan to 7917 yuan.\(^{49}\) From 1978 to 2007, the population living below the poverty line in rural area was reduced from 250 million (1978 poverty line was annual per capita income of 100 yuan) to 14.79 million (2007 poverty line was annual per capita income of 785 yuan).\(^{50}\) And there are other measurements to consider. After six rounds of reform from 2001 to 2012, the central government has cut administrative approval items by 69.3%.\(^{51}\) Currently, over 90% of the prices of commodities and services are determined by the market rather than the government.\(^{52}\) In 2012, private sector contributions accounted for more than 60% of GDP.\(^{53}\)

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\(^{52}\) Guojia Jiwei, Jiamei Xianzhi Sheji Xiang Mu, Fangkai Shangpin Fuwu Jiage (减少价格审批项目，放开商品服务价格) [To Reduce Price Review and Approval, Deregulate Prices of Goods and Services] (promulgated by the State Council Info. Office, July 11, 2001), Xinwen Fabuhui Ji, 351.

\(^{53}\) Pan Yue, *Minying Jingji Zhan GDP Bizhong Chao 60%* (民营经济占 GDP 比重超 60%) [*Share of Private Sector in GDP Over 60%*], Renmin Ribao, 1, (2013).
Finally, I will elaborate upon the challenges and problems faced by the Chinese government in pursuing further regulatory reform. In my view, there are four fundamental challenges that will prove very difficult to overcome. First, the incremental approach to reform tends to focus more on immediate problems, and less on developing overall strategy. As a result, it leaves the most difficult tasks to the future, and prevents certain core reforms from ever being initiated. For example, though separation between government and enterprise has been a main theme of Chinese reform for more than thirty years, local governments still have remained enmeshed in economic activities for the sake of local revenue, investment, and GDP. This involvement has created misallocations between government and enterprise, as well as distortion of law enforcement, such as selective enforcement and entrapment practices.

In addition, despite the fact that the central government has cut bureaucratic red tape by 69.3%, the items that have been cut mostly are not that significant, and cutting them has not changed the fact that the government rather than the market has remained the dominant player in resource allocation. Even today, private capital


55 See, e.g., Zhao Shukai, Nongcun Fazhan yu Jiceng Zhengfu Gongsihua (农村发展与基层政府公司化) [Rural Development and Local Governments as Corporations], 10 ZHONGGUO FA ZHAN GUANCHA 48 (2006) (describing the development of local governments in rural areas as if they were corporations); Andrew G. Walder, Local Governments as Industrial Firms: An Organizational Analysis of China’s Transitional Economy, 101 AM. J. SOC. 263, 268–69 (1995) (presenting an analysis of industrial organization as one where the relationship between governments and enterprises is analogous to the relations within a corporation).

56 Dai Zhiyong, Xuanzexing Zhifa (选择性执法) [Selective Enforcement], 4 FA XUE YAN JU 28 (2008).

still cannot invest in certain key areas like energy and telecommunications.\textsuperscript{58}

Moreover, when it comes to government restructuring, many agencies are placed in charge of designing the blueprint for reform and then implementing this plan themselves—combining the roles of “player and referee.”\textsuperscript{59} The “super ministry” reforms of 2008 and 2013 have not changed this trend; in fact, the super ministry model has only reinforced the problem, making core reform, such as functional transformation, even more challenging. Indeed, how to compel these bigger ministries to deregulate and decentralize may prove to be an even more arduous task in the years to come. To use the terminology of Professor Wu Jinglian, China needs to overcome “big obstacles,” \textsuperscript{60} and all these big obstacles are difficult to overcome. Although the incremental approach has enjoyed some success thus far, it has not always proved sufficient to overcome such big or critical obstacles, and so there is reason to doubt it would ultimately be successful.

The second challenge is that the driving impetus for reform has been diminishing in China. There have been two major driving forces for Chinese regulatory reform over the past thirty-five years, which have been most effective. The first has been outside pressure. External competition has always been the most powerful driving force for reform in China. For example, if someone tells our leaders, “well, India has been doing this and that,” these leaders cannot wait—they have to do it too.

\textsuperscript{58} For an excellent case study, see Roselyn Hsueh, China’s Regulatory State: A New Strategy for Globalization, 193–270 (2011) (explaining why private capital investments in certain key areas are problematic).

\textsuperscript{59} See generally Liu Hong, Tigaiwei: Gaige de Zhongshu (体改委: 改革的中枢) [State Economic Structure Reform Commission: Center of Reform], JINGJI GUANCHA BAO, 45 (2010) (noting the roles of the State Economic Structure Reform Commission in three momentous events in reform, \textit{i.e.}, the establishment of market economy, change in the tradition of planned economy, and clarification of the relationships among the government, market and enterprises); Liu Jipeng, Cong Xiangnian Tigaiwei Shuoqi (从想念体改委说起) [Beginning with Recalling State Economic Structure Reform Commission], NANFANG ZHOU MO (2004) (discussing the decision-making process of the State Economic Structure Reform Commission).

\textsuperscript{60} See generally Wu Jinglian, Gaige: Women Zhengzai Guodaguan (改革: 我们正在过大关) [REFORM: WE ARE NOW AT A CRITICAL POINT] 102–103 (2001) (arguing that four key problems need to be solved during the process of economic reform: adjusting ownership structure, addressing discriminatory treatment against private enterprises, building market-supportive institutions, and establishing the rule of law).
Despite the influence of competition, because of the consequences of economic growth, Chinese government officials now enjoy many financial resources, and generally appear satisfied with the status quo. Some even say, “now socialism can not only save China, it can save the world.” So where is the pressure for reform? Recently my colleagues and I were entrusted to draft a new regulation for promoting economic reform. As a result, we conducted very intensive field investigations. I visited Shenzhen and talked to some officials there. The impression I got was that no one cared too much about reform. Everyone has a nice house, a good salary, and a fancy car. With those factors in place, there is little incentive for change.

The second major driving force for reform in the past thirty-five to forty years has been governmental incentives, from the “top down” and “bottom up” (i.e. from both the central and local governments). This form of motivation has been very effective. But now, many officials do not have the proper incentives for further reform. Local governments can just raise the price of housing, collect on this increase, sell land usage rights, and then allocate the money for their own purposes—rendering incentives for reform ineffective. The electricity sector provides another good illustration: until 2002, independent generators contributed nearly half of nationwide electricity production while the State Electricity Group produced the other half. However, since the State Electricity Group monopolized the state grid, it tended to hinder competition in the wholesale market, by not purchasing enough electricity from the independent generators. In order to promote fair competition, the central government launched a series of reforms in 2002, dismantling the State Electricity Group into two grid operators and five major electricity generation companies, and

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61 See, e.g., CHEN SIJIN, ZHIYOU SHEHUI ZHUHUI JIANG JIU MEIGUO (只有社会主义才能救美国) [ONLY SOCIALISM CAN SAVE THE UNITED STATES] 211–212 (2010) (arguing that the Obama Administration is using socialist policies to rescue the US economy).

62 Liu Shujie, Ruhe Bimian Fan Luoji (如何避免反逻辑) [How to Prevent Electric Restructuring from Being Illogical], 12 NENGYUAN PINGLUN (2016).

63 Wang Xiaobing, Dianli Gaige Fang’an Shimo (电力改革方案始末) [The Whole Story of the Electricity Reform Plan], 4 ZHONGGUO GAIGE, 58 (2004).

64 The State Council approved Dianli Tizhi Gaige Fang’an (电力体制改革方案) [Reform Plan of the Electricity Sector] in 2002, and launched a series of reforms.
passing regulations aimed at promoting competition. The State Electricity Regulatory Commission was established in 2003, based on electricity sector reform in other countries. Despite these changes, after ten years, a competitive market has not emerged, and no other substantial reforms have been adopted. The power to regulate tariffs and market entry in the electricity sector has continued to belong to the National Development and Reform Commission. As long as the NDRC can raise the price of the electricity, which has been the case in past years, major stakeholders including generators and grid operators continue to make money, and hence accept the status quo without pushing for further reform. Under these circumstances, the SERC has neither jurisdiction nor incentive to regulate at all, and so has been nicknamed the “research institute of electricity.”

A third challenge has to do with the difficulty of transition. Rule of law, a market economy, freedom—all of these elements are part of that goal. But in such a big and complicated country, the most difficult question is, how do we reach that goal? There are all kinds of challenges—including social unrest—that are occurring during this transitional period. Against this backdrop, one can observe a recurring swing from the newer regulatory model back to the traditional management approach, which is still effective for dealing with some problems.

For example, during the Olympics, the Chinese government applied its traditional approach to security and was very successful; it prevented all major accidents and potential bombings. However, this approach based on political mobilization could not be later

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65 Zhang Guobao, Dian Gai Shinian de Huigu yu Sibian 2 (电改十年的回顾与思辨 2) [Review and Thoughts on the Ten Years of Electricity Sector Reform, Part II], ZHONGGUO JINGJI ZHOUKAN, 43 (2013).

66 Mr. Shao Bingren, former vice chairman of the SERC, openly criticized the stagnation or even regression of electricity reform during 2012 National People’s Congress and CPPCC sessions. Tong Xiaobo, Cheng Zhen, Li Yongqiang & Hu Xuecui, Daibiao Weyuan Reyi Nengyuan Tigai yu Jiagai (代表委员热议 能源体改与价改) [Representatives of the National People’s Congress and Members of the National Committee of Chinese People’s Political Consultative Conference Discuss Energy Reform and Price Reform], ZHONGGUO NENGYUAN BAO, 2 (2012).

67 Meng Jianzhu, Ba Aoyun Anbao Chenggong Jingyan Zhanhua Wei Changxiao Jizhi (把奥运安保成功经验转化为畅销机制) [Turning the Successful Experience of the Beijing Olympics Security into a Permanent Mechanism], RENMIN RIBAO (HAIWAI BAN), 2 (2008).
sustained because of its high cost. Hence, the pendulum swung back to newer regulatory approaches, which are more cost-effective. These new approaches might continue to be applied during “normal” periods, but whenever there are accidents or crises, the government will revert back to its traditional approach. In the public health arena, the Chinese government’s approach to the outbreak of SARS in 2003 provides another good illustration. So there is an ongoing challenge of not being able to rely on new regulatory approaches being used consistently, or predictably operated.

The fourth challenge is the lack of rule of law and judicial independence in China. In many respects, the legal framework calls for further improvement; in other respects, well-crafted laws are not observed or strictly enforced. This all contributes to a serious dilemma. On the one hand, traditional rules, which mostly are not consistent with a market economy and not able to be amended in time due to legislative weakness, must be ignored or even broken in order to promote a new regulatory system. Indeed, China’s reform process has been one in which traditional rules have been gradually tossed away. In Guangdong Province, for example, it is common wisdom that one must move quickly when facing “a yellow light” (i.e., rules) and circumvent when facing a “red light” (i.e.,

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68 Due to China’s weak public health protection system, after the SARS outbreak, many local governments (including Beijing’s) relied on mass mobilization, almost martial in nature, to register, monitor and control the movement of their populations. The titles of newspaper reports from that time illustrate the ubiquitous use of these measures. See, e.g., Zhao Hong & Sun Haihua, Quanmin Da Hao Kangfei Gongjianzhan (全民打好“抗非”攻坚战) [Mobilizing the People of the Whole Country and Declaring the Hard War against SARS], XI’AN RIBAO (2003) (describing the SARS incident as a war and the people as the military); Li Jian, Zhunbei Changqi Zuozhan Yanba Beijing Damen (准备长期作战严把北京大门) [Preparing Long-term Battle, Tightly Controlling the Gate of Beijing], BEIJING RIBAO (2003) (advocating the people in Beijing to take their responsibility to fight against SARS); Zhang Zhengjun & Li Changjiang, Qunfang Qunkong Kangji Feidian: Henan Sheng Junqu Dongyuan Minbing Touru Fang Feidian Zhandou (群防群控抗击非典: 河南省军区动员民兵投入防非典战斗) [Fighting SARS by Mass Prevention and Control: Henan Provincial Military Command Enters the Battle with People’s Militia], JIEFANGJUN BAO (2003) (mobilizing people’s militia to be responsible for SARS control).

69 GUOWUYUAN XINWEN BANGONGSHI, ZHONGGUO DE FAZHI JIANSE (中国的法制建设) [China’s Efforts and Achievements in Promoting the Rule of Law] (2008). See also Chen Hongyi, Zhongguo Zouxiang Fazhi zhi Lu de Huigu (中国走向法治之路的回顾) [Review of China’s Road Towards Rule of Law], 115 ERSHIYI SHIJU 9–11 (2009) (arguing that the tension between traditional Chinese conception of social governance and the modern conception of law in some sense prevents China to approach modern rule of law).
prohibitions) in order to pursue reform. However, regulatory reform that contradicts current rules too much will damage the people’s confidence in the law, and the rule of law more generally.

Always, in practice, there is a tension between lawfulness (“law by the books”) and rationality (“law in action”). At the extremes, this tension becomes a dilemma between legal nihilism and legal formalism. Because China has not had a “rule of law” tradition, steps must be taken to establish the authority of law. But, the other end of the spectrum of legal formalism may be in conflict with social requirements and pose obstacles to reform. Just as the pendulum swings between the old and new regulatory approaches in China, so too when it swings to the extreme of legal formalism (which also happened in the United States in the 1930s), the pendulum then inevitably swings back to legal nihilism. This is the reason for the call for innovation of social administration in recent years: certain government leaders have found out the legal system does not work at all and cannot solve difficult problems. Quite often law professors only criticize administrative actions, saying “you cannot do this, you cannot do that.” But government officials reply, “well, tell me what I should do—I have to get the job done.”

Regulatory research is extremely important for these purposes. From the regulatory perspective, officials must not only be told what they cannot do, but also what they can do and the

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70 Some Chinese scholars have referred to these phenomena as “positive violations of law” (liangxing weifa), and suggested they should not be refuted totally. See, e.g., He Li, Liangfa Zhi Zhi he Liangxing Weifa (良法之治和良性违法) [Rule of Good Law and Positive Violation of Law], 3 YUNNAN XINGZHENG XUEYUAN XUEBAO 73 (2003) (discussing positive violations of law and their effects). Other Chinese scholars insist that so-called “positive violations of law” should not be tolerated by a society based on rule of law. See, e.g., Li Kejie, Fazhi Shehui Buneng Rongren “Liangxing Weifa” (法治社会不能容忍“良性违法”) [“Positive Violation of Law” Cannot Be Tolerated in a Rule of Law Society], 2 FAZHI YU SHEHUI 25 (2007) (dismissing positive violations of law as a valid principle to use).

71 See, e.g., United States v. Butler, 297 U.S. 1, 62 (1936) (“When an Act of Congress is appropriately challenged in the courts as not conforming to the constitutional mandate, the judicial branch of government has only one duty—to lay the article of the Constitution which is involved beside the statute which is challenged and to decide whether the latter squares with the former”).

72 Zhonggong Zhongyang Guowuyuan Guanyu Jiaqiang Shehui Chuangxin Guanli de Yijian (中共中央国务院关于加强社会创新管理的意见) [Opinions of the CPC Central Committee and the State Council on Social Management Innovation] (promulgated by the CPC Cent. Comm. and the St. Council, July 2011), http://www.reformdata.org/content/20110919/24066.html [perma.cc/7HP7-SZZM].
smartest way to get the job done. This is a big challenge, not only for government, but also for legal scholars who are only familiar with pure legal rules.

IV. CONCLUSION

China’s regulatory reform is by and large analogous to regulatory reform generally, in other countries. There is no such thing as a “China Model” as has been promoted in recent years by different parties. However, China does have its own problems and challenges due to its unique history and current regime. There is a big question as to whether China’s incremental approach ultimately will be successful. So far, it has been proven repeatedly that the incremental approach cannot overcome fundamental shortcomings, and obstacles to reform have only accumulated. In order to transcend government-imposed limits, it is important to develop a comprehensive governance structure, and let the market, civil society, and the legal system each play a bigger role. All of these mechanisms have been emerging in practice and it is worthwhile to observe how they have interacted with the government regulatory mechanism. The interactions among different driving forces will determine the future of regulatory reform in China.

Moreover, China’s regulatory reform has also shown that theory and ideology can play a very important role in institutional development. Actually, the term “regulation” (“jianguan”) is a relatively new word in China. Before 1995, jianguan was limited to the areas of prison management and customs; there was no broader understanding of this term at all. For example, the Eighth Five

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73 See ZHONGGUO JINGJI ZHONGCHANGQI FAZHAN HE ZHUANXING—GUOJI SHIJIAO DE SIKAO HE JIANYI (中国经济中长期发展和转型: 国际视角的思考和建议) [MEDIUM AND LONG TERM DEVELOPMENT AND TRANSFORMATION OF CHINESE ECONOMY: THOUGHTS FROM AN INTERNATIONAL PERSPECTIVE] 5 (Edwin Lim & Michael Spence eds., 2011) (noting that since World War II, there have been only thirteen economic entities with annual growth rates above 7% for more than twenty-five consecutive years. They have five common features, though each one has its own characteristics). See generally HUANG YASHENG, CAPITALISM WITH CHINESE CHARACTERISTICS (2010) (discussing Professor Huang Yasheng of MIT’s Sloan School’s now famous analysis and critiques of the so-called “China Model”); HUANG YASHENG, “ZHONGGUO MOSHI” DAODI YOU DUO DUTE? (“中国模式”到底有多独特?) [HOW UNIQUE IS THE CHINA MODEL?] (2011).

74 See, e.g., ZHONGGUO ZHENGFA DAXUE JIANYU SHIXUE YANJIU ZHONGXIN, JIANYU WENHUA JIANSHE YU JIANGUAN ANQUAN GONGZUO YANJIU (监狱文化建设与监管安全工
Year Plan issued in 1991 did not use the term “regulation” at all. The Ninth Five Year Plan issued in 1996 was the first official document to mention the term. Most recently, the Twelfth Five Year Plan issued in 2011 mentioned the term “regulation” forty-seven times.

Indeed, the term has become so popular that even government agencies tend to go out of their way to link themselves to it. Strictly speaking, the English names of such agencies like the CSRC, SIRC, and CBRC should be translated into “supervision and administration commissions”—in Chinese, the word “regulatory” does not actually appear (the only exception is SERC, whose Chinese name does connote a regulatory body). It seems that these agencies all chose technically improper English translations of their names in order to emphasize their role in regulation rather than their general supervisory or administrative roles. From the translation of these agency names, as well as many practical steps the agencies have been taking, one can infer the influence of regulatory theory and the mindset of agency officials who want to catch up with the international trend of regulatory reform.

China’s regulatory reform started much earlier than the adoption of regulatory theory. But since the introduction of new concepts in the mid-1990s, China’s regulatory reform has had a new blueprint. Regulatory reform has obtained new momentum, and

75. The Ten-Year Layout for National Economy and Social Development and Eighth Five-Year Plan (approved by the fourth session of the Seventh National People’s Congress (NPC) in March 1991).
77. The Twelfth Five-Year Plan (approved by the National People's Congress on March 14, 2011).
78. The full name of SERC is “Guojia Dianli Jianguan Weiyuanhui” (国家电力监管委员会), and “jianguan” (监管) is the Chinese translation of regulation.
institutional arrangements have been established on a much more solid foundation. Based on the above analysis, it is apparent that serious theoretical discussion and effective international cooperation will be necessary for further reform and progress in China.