UNIVERSITY OF AUCKLAND
Waipapa Taumata Rau
NEW ZEALAND

NEW ZEALAND ASIA INSTITUTE

New Zealand Asia Institute Research snapshots

No. 45

The New Zealand Asia Institute (NZAI) undertakes research focusing on engagement with Asia, provides a forum for informed debates, and offers a bridge to Asia-related expertise and research within the University of Auckland.

How China's regulators bend the rules in a principled, productive way

New research** helps solve a puzzle about regulation in China: rigid, restrictive rules are often bent by regulators in practice. It shows how guidelines for regulatory discretion, decreed under catchy slogans but otherwise unwritten, have smoothed the transition to a coordinated market economy in an impressively principled, productive and non-personal way. These guidelines let regulators from central to local level adapt rules (and their implementation), as well as institutions, to evolving situations in keeping with policy goals.

The study examined China's Special Treatments for Special Matters (Te Shi Te Ban: STfSMs) guideline for regulatory exemptions and exceptions, as applied to the roaringly successful but under-studied latest chapter of China's economic reform: the Fang Guan Fu policy regime (FGF). FGF means "Hands off, manage and serve". Since 2018 it has improved state-market relations by delegating power, streamlining administration and optimizing state services. The researchers categorized STfSMs into treatments which "innovated", "supervised" or "renovated" institutions, either incrementally or radically.

Dalian Jinpu New Area, for example, innovated 25 operational measures, from technical support to financing, for Japanese equipment manufacturer Nidec Corporation. This STfSM targeted that port city's aim to be "North-east China's World Window". More radical innovations have eyed wider possible application. One, dubbed "From Tesla Speed to Shanghai Speed", aimed to smooth direct investment in the Shanghai Free Trade Zone and, more broadly, to advance China's economic prospects in line with FGF. It first enabled Tesla to build a Gigafactory (producing 500,000 cars annually) in 168 days flat, then slashed permitting times for other investors. Regulators in other provinces soon followed suit.

STfSMs can also supervise institutional innovations, to save new institutions from collapsing. For instance, when a new market selling farm produce online was beset by poor quality, fake products and false advertising, national regulators revised the E-Commerce Law and merged it with regulations for product quality, food safety and advertising. More radical was a larger-scale STfSM during the COVID pandemic. Several government departments revised export regulations for personal protection gear and ventilators and blacklisted exporters who had abused a "green channel" for speedy licensing by skimping on quality control.

Other STfSMs renovate institutions by demolishing or upgrading old regulations or policies for the sake of economic growth and social stability. For instance, post-pandemic, many cities provisionally lifted an old ban on street vending to help employ the millions made jobless by lockdowns. A more radical treatment swept away compliance burdens on solar and wind power companies nationwide. Policy loopholes left by rapid radical renovations are inevitable but can be addressed by follow-up regulatory adjustments.

Overall, this research explains how institutional prescriptions can change flexibly, without directly reinventing or undermining them. The way STfSMs help China launch and implement policy systems holds lessons for firms operating there; for fellow transition economies; and for developed economies, who often share a need for regulatory adaptation.

** The full study results are available in an article authored by Zheng Joseph Yan, Jin Luo and Ziran Chen: "Proto-institutional work: the 'special treatments for special matters' in institutional transition". Chinese Management Studies, published online 13 April 2022, doi.org/10.1108/CMS-05-2021-0188.

Photo: xxxx on Unsplash.com