International Arbitration in China and its Prospects – How it is Promoted at the Local Level

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Key Points:

• Chinese arbitration reform in recent years shows a strong tendency towards international norms and standards.
• Subnational regulations have proliferated over the past few years to achieve this goal.
• Due to the highly innovative and experimental orientations of these regulatory measures, there remain uncertainties about their legality and the smooth running of their implementation within the wider Chinese legal system.

Introduction

Efforts to onshore international cases, especially those under the banner of the Belt and Road Initiative, no doubt characterize the recent development of dispute resolution policies and practices in China as increasingly internationally-oriented.¹ One such effort has been the central government’s commitment to promulgating a series of policy measures to incorporate international arbitration into China’s wider regime of transnational dispute resolution.² As the State Council itself points out,³ however, the current Chinese arbitration system is in need of further reform, especially due to its weakness in “international competitiveness” (guoji jingzhengli).

¹ See e.g., Zhonghua renmin gongheguo guowuyuan (中华人民共和国国务院) [The State Council of the People’s Republic of China], Guanyu jianli yidai yilu guoji shangshi zhengduan jiejue jizhi he jigou de yijian (关于建立 “一带一路”国际商事争端解决机制和机构的意见) [Opinions on the Establishment of the Belt and Road International Commercial Dispute Resolution Mechanisms and Institutions], 2018, China.
² See e.g., Zuigao renmin fayuan (最高人民法院) [The Supreme People’s Court], Zuigao renmin fayuan bangongting guanyu queding shoupi naru yizhanshi guoji shangshi jiefu duoyuanhua jiejue jizhi de guoji shangshi zhongcai jigou ji tiaojie jigou de tongzhi (最高人民法院办公厅关于确定首批纳入 “一站式”国际商事纠纷多元化解决机制的国际商事仲裁机构及调解机构的通知) [Notice of the General Office of the Supreme People’s Court on Determining the First Group of International Commercial Arbitration and Mediation Institutions Included in the “One-Stop” Diversified Mechanisms for Resolving International Commercial Disputes], 2018, China;
³ Zhonghua renmin gongheguo guowuyuan (中华人民共和国国务院) [The State Council of the People’s Republic of China], Guanyu wanshan zhongcai zhidu tigao zhongcai gongxinli de ruogan yijuan (关于完善仲裁制度提高仲裁公信力的若干意见) [Opinions on Perfecting Arbitral System and Enhancing its Credibility], 2018, (China).
To onshore China-related international disputes, reforming the Chinese arbitration system so that it can align closely with international norms and standards has thus become a priority. Measures that attempt to do so are manifold. One category of measures, examined in this Research Brief, is rule-making in the form of subnational legislation, local policy decrees, and institutional arbitral rules. This Research Brief explores some of these regulatory measures and their challenges.

Local Initiatives and Foreign Arbitral Organs

The People’s Republic of China (PRC) 1994 Arbitration Law itself is a product of legal transplantation that draws on multiple sources of international legal requirements and standards. These sources include the New York Convention, the United Nations Commission on International Trade Law (UNCITRAL) Model Law, as well as arbitration laws in Euro-American jurisdictions. For example, unlike its preceding Soviet government-led arbitration scheme, the current arbitration law explicitly sets out the principles of party autonomy and institutional independence (Articles 4, 8, and 14). International “pro-arbitration” schemes and procedures, such as the presumptive validity of arbitration agreements and the obligation to recognize arbitral awards, were also adopted by the legislative authority.

A closer examination of the Arbitration Law, however, seems to show that the legislative reform for international arbitration is far from complete. As many studies have observed, the Chinese arbitration law has “not yet been synchronized with international standards.” For instance, Chinese arbitral organs still remain closely tied to state bureaucracy. Ad hoc arbitration is not recognized. Nor does the Arbitration Law allow foreign arbitration institutions to undertake arbitral cases in China. Moreover, the Arbitration Law’s approaches to some of the key aspects of arbitral proceedings—such as competence—have been inconsistent with international standards, giving courts or committees of arbitral organs extensive powers over arbitrators to determine these matters.

To attract more international users, the 1994 Arbitration Law is no doubt now in need of further reform. But some local governments have already taken the initiative to overcome some of the national legislation’s shortcomings. One such classic example is Shenzhen’s enactment of the Provisions on the Administration of Shenzhen Commercial Arbitration: A Legislative Proposal [Interim Measures and Court Parochialism in China Commercial Arbitration: A Legislative Proposal], 29 Jiaoda Faxue (交大法学) [Shanghai Jiaotong U. L. Rev.] 154, (2019).

*Id.*


7 See also Gary Born, International Arbitration: Cases and Materials 46 (2nd ed, 2015).


Court of International Arbitration (SCIA). The major aim of this act is to ensure the SCIA’s independence by clarifying its ambiguous institutional status under the Arbitration Law. The act specifies that the SCIA is not merely an “administrative office” (banshi jigou) of the local government. Instead, the SCIA is designated as a distinctive kind of “statutory institution” (fading jigou) whose institutional independence is guaranteed by a tailored local statute such as the act. It follows that the SCIA differs from other local public institutions and, thus, operates independently of the local bureaucratic regime (Article 3).

The other more recent case is Shanghai’s policy enactment that permits foreign arbitration institutions to operate in its free trade zone (FTZ) from 2020. As the Arbitration Law provides, Chinese arbitration commissions are the only legitimate institutions that can undertake arbitral cases in China. How arbitral awards made by foreign arbitral organs in China should be enforced and their institutional status have long been debated over the past two decades. The Supreme People’s Court (SPC) has allowed some exceptions through a series of landmark decisions and policy instructions since 2009. But these exceptional, or expedient, measures are far too fragmentary. Neither is the scope of their application clear. Concerns about the following issues remain strong: the legality of foreign arbitration institutions, the validity of arbitration agreements that choose them to administrate cases in China, and the processes by which their arbitral awards should be recognized and enforced. As the Deputy Secretary-General of HKIAC in the Shanghai Office observes, these are all factors that deter disputants from using foreign arbitral institutions seated in China, “undoubtedly becoming obstacles to onshoring China-related international cases.”

The State Council’s strong interests in promoting FTZs in recent years seem to provide Shanghai with an opportunity to lift itself out of these constraints. In October 2019, the municipal government enacted the long-awaited regulation, China, Zhongguo (shanghai) ziyao shiyuanzongti fang'an (中国(上海)自由贸易试验区总体方案) [The Framework Plan for China (Shanghai) Pilot Free Trade Zone] 2013, China; Zhonghua renmin gongheguo guowuyuan (中华人民共和国国务院) [The State Council of the People’s Republic of China], Putonghu shenhua zhongguo (shanghai) ziyao maoyi shiyuan qu gaige kaifang fangan de tongzhi (进一步深化中国(上海)自由贸易试验区改革开放方案的通知) [Notice of the Plan for Further Deepening the Reform and Opening-Up of China (Shanghai) Pilot Free Trade Zone] 2015, China; Zhonghua renmin gongheguo guowuyuan (中华人民共和国国务院) [The State Council of the People’s Republic of China], Quanmian shenhua zhongguo (shanghai) ziyao maoyi shiyuanqu gaige kaifang fangan (全面深化中国(上海)自由贸易试验区改革开放方案) [The Plan for Comprehensively Furthering the Efforts of Reform and Opening-Up of China (Shanghai) Pilot Free Trade Zone], China, 2017; Zhonghua renmin gongheguo guowuyuan (中华人民共和国国务院) [The State Council of the People’s Republic of China], Zhongguo (shanghai) ziyao maoyi shiyuanqu lingxiang xinpian zongti fang'an (中国(上海)自由贸易试验区临港新片区总体方案) [The Framework Plan for the Lin-Gang Special Area of China (Shanghai) Pilot Free Trade Zone], 2019, China.

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"Shenzhen guoji zhongcaiyuan guanli (shixing) (深圳国际仲裁院管理规定(试行)) [Provisions on Shenzhen Court of International Arbitration (For Trial Implementation)], 2012, China.

See e.g., Zhao Xiwen (赵秀文), Guowai zhongcai jigou caijue budengyu waiguo zhongcai caijue (国外仲裁机构裁决不等于外国仲裁裁决) [Foreign Arbitration Institution Awards Are Not Foreign Arbitral Awards], 9 Faxue (法学) [L. Sci.] 125 (2006); Li Jian (李健), Waiguo zhongcai jigou zai zhongguo neidi buxing (外国仲裁机构在中国内地仲裁不可行) [Foreign Arbitration Institutions Cannot Undertake Arbitral Cases in Mainland China], 12 Faxue (法学) [L. Sci.] 130 (2008).

See Gu Weixia, The Developing Nature of Arbitration in Mainland China and its Correlation with the Market, 13 CONTEMP. ASIA, ABB. J. 269-71 (2017); Zuigao renmin fayuan guanyu wei ziyao maoyi shiyuanqu jianshe tigong sifa baozhang de yijian (最高人民法院关于为自由贸易试验区建设提供司法保障的意见) [Opinions of the Supreme People’s Court on Providing Judicial Guarantee for the Building of Pilot Free Trade Zones], 2016, China.

14 Interview with Dr. Ling Yang in Shanghai, China (June 2018).

15 Zhonghua renmin gongheguo guowuyuan (中华人民共和国国务院) [The State Council of the People’s Republic of China]
Measures for the Administration of Overseas Arbitration Institutions’ Establishment of Business Departments in the Lin-Gang Special Area of China (Shanghai) Pilot Free Trade Zone. Not only does the act recognize the legitimacy of foreign arbitral organs, but it also specifies conditions under which they may register, and the types of disputes that they can undertake within the Shanghai FTZ. Any lawful and internationally reputable foreign arbitral organs that “have existed for more than five years” and “have conducted substantial arbitration activities” can register with the Municipal Bureau of Justice in Shanghai (Articles 6 and 7). The types of cases that they can handle are limited to foreign-related disputes over international commerce, maritime law, and investment (Articles 14 and 18).

It should be noted that the regulation itself does not cover details about arbitral proceedings and the processes through which awards can be precluded and enforced. Nor is the regulation clear about its relation to the Arbitration Law and the Civil Procedure Law. From a practical point of view, the promulgation of this policy measure thus has prompted several important questions that need to be further clarified by the relevant authorities. What exactly is the procedural law of the arbitration (or lex arbitri) that governs the arbitral processes managed by the foreign arbitral organs in the Shanghai FTZ? To what extent are national arbitration legislation and judicial decisions still applicable to their cases? More fundamentally, how “special” is the FTZ as a distinctive sphere of regulatory regime in relation to the wider Chinese legal system?

So far, Chinese judicial authorities have adopted a rather cautious approach to these issues. Immediately after the regulation was promulgated, the SPC issued a policy document to endorse the Shanghai’s FTZ dispute resolution reform. The document covers a wide range of important issues pertaining to how people’s courts should provide “services and protection” for the FTZ. Relevant to the subject of arbitration examined here is the SPC’s support to handle, “by law” (yifa), requests for provisional measures and the enforcement of foreign-related awards. As the Shanghai High Court indicates, for example, national courts are still the only authority that can grant provisional relief for arbitral cases rather than arbitral tribunals themselves.

This view is simply a reiteration of the Arbitration Law’s requirement, which likewise only permits national courts to order such relief. Despite the ambiguity of the very term “by law,” the underlying message is clear: the Shanghai’s FTZ reform is not free from constraints imposed by national arbitration legislation and judicial precedents.

Against the backdrop of China’s recent nationalist revival, the Shanghai FTZ arbitration measure is no doubt a bold and unusual move. It has been one of the very few Chinese legal reforms in recent years that still make efforts to pursue international standards. And the judicial system’s

8 Shanghai sifaju (上海司法局) [Shanghai Municipal Bureau of Justice], Jingwai zhongcai jigou zai zhongguo (上海) ziyou guanli guanyu renmin men she li yewe yiou guanli banfa (境外仲裁机构在中国 (上海) 自由贸易试验区临港新片区设立业务机构管理办法) [Measures for the Administration of Overseas Arbitration Institutions’ Establishment of Business Departments in the Lin-Gang Special Area of China (Shanghai) Pilot Free Trade Zone], 2019, China.

9 Zuigao renmin fayuan (最高人民法院) [The Supreme People's Court], Zuigao renmin fayuan guanyu renmin fayuan wei zhongguo (shanghai) ziyou maoyi shiyianqu lingang xinjianqu jianshe fayuan wei zhongguo (最高人民法院关于人民法院为中华人民共和国 (上海) 自由贸易试验区临港新片区建设提供司法服务和保障的意见) [Opinions of the SPC on Provisions Regarding Judicial Services and Protection Provided by the People's Courts for the Construction of China (Shanghai) Pilot Free Trade Zone Lin-Gang Special Area], 2019, China.

10 Shanghaihishi gaoji renmin fayuan (上海市高级人民法院) [The Shanghai High People's Court], Shanghai fayuan shewai shangshi jiufen纠纷诉讼 (涉外商事纠纷诉讼) [Shanghai High Court’s Guidance on the Diversification of Foreign-Related Commercial Litigation, Mediation, and Arbitration (For Trial Implementation)], 2019, China.
seemingly conservative position may not be so much a regression as in itself a deliberate attempt to ensure the reform's smooth running within the system of Chinese legal bureaucracy.

Uncertainties remain about the prospect for the operation of foreign arbitral organs in China, however. One such concern is the extent to which disputants may choose China-based foreign arbitral organs over other Chinese arbitration institutions or overseas arbitral venues such as Hong Kong and Singapore. Several factors may deter disputants from doing so. One immediate factor is the provisional nature of the Shanghai FTZ arbitration measure itself, which is only valid for three years and will end soon on 31 December 2022 (Article 25). It is unclear how disputants should deal with this time limit in their arbitration agreements. It is also not clear whether disputes that take place after the expiry date can still be administered by those foreign arbitral organs registered in the Shanghai FTZ. These are all uncertainties that potential clients and their lawyers would very much like to avoid during the contract drafting stage. For the sake of legal certainty, prospective users may consider Chinese arbitration commissions or even arbitral services outside of China to be better forums than those foreign arbitral organs seated in the Shanghai FTZ. It is, then, not unreasonable to suspect that the Shanghai FTZ arbitration reform may simply be yet another vanity project in China, whose significance lies not so much in its practical outcomes as in its propagandic effects.¹⁹

**Institutional Rules**

To be sure, measures to legislate for an international arbitration system in China are not limited to state-driven approaches such as national laws and local statutory initiatives. Long before the central state's recent interest in promoting the use of arbitration for cross-border commercial dispute resolution, several Chinese arbitral organs in top-tier cities have already adopted a wide range of policy measures that aim to achieve the same goal. One of the measures examined here is their enactment of institutional arbitration rules that align very closely with the “best practices” of international arbitration law. The degree to which Chinese arbitral organs take seriously the ideal of internationalization varies. It is also often the case that many of them are inclined to restrict themselves to local cases, showing little interest in undertaking cross-border commercial cases. But arbitral organs in China’s top-tier cities appear to have considered otherwise. Like most leading arbitration institutions elsewhere in the world, they too are ambitious, reluctant to identify themselves as merely "regional" organizations. As the rapidly increasing number of international cases that some of these Chinese arbitral organs claim to have undertaken seems to show,²⁰ they are likewise eager to expand their share of international arbitral cases and, eventually, to “become globally recognized arbitral institutions that are internationally competitive.”²¹

Nevertheless, it is by no means an easy task for these city-named arbitral organs to convince prospective users, such as Chinese state-owned enterprises (SOEs) and foreign corporations, to elect them to handle their cases. For one thing, dispute resolution for China-related international cases (especially those cases whose intended places of enforcement are within the territory of China) has long been the exclusive domain of the China International Economic and Trade Arbitration Commission (CIETAC). For another, city-named arbitral organs are not usually seen by regular users of international arbitration as ideal


²¹ Interview with case manager in Beijing (Dec. 2017).
forums for dealing with cross-border disputes. This negative perception results from multiple factors. The “local” level of their institutional ranks within the Chinese bureaucratic system is one immediate cause. But more fundamentally, anecdotal evidence seems to suggest that inexperience of handling international arbitration and local favouritism are also decisive factors that discourage potential users from choosing city-named arbitral organs to manage their cases. Therefore, even for users who are dissatisfied with CIETAC, these local arbitral institutions are unlikely to be their second choice. They may instead opt for arbitration institutions outside of China as alternatives to CIETAC.

To attract more China-related international cases, some forward-thinking arbitration officials believe that a better strategy is not simply to mimic CIETAC but to provide services that ensure their prospective users to benefit from the “best practices” of international arbitration. And one way of doing this is to amend their arbitration rules to align with international norms. The UNCITRAL Arbitration Rules and arbitral rules of leading international arbitral institutions in Euro-American jurisdictions, for example, are the main sources to which Chinese local arbitral organs make reference to enact their own institutional arbitration rules.

One shared feature of these rules is their effort to improve on national legislation. In most cases, these rules aim to complement national arbitration legislation by specifying further details about aspects of arbitral proceedings that it fails to cover. Yet there are also cases where these rules introduce innovations that are directly transplanted from foreign sources with no similar counterparts in Chinese arbitration laws. The Beijing Arbitration Commission Arbitration Rules (hereinafter, “the Rules”) is a classic example. The Rules diverge from the Arbitration Law in many respects. For instance, the Rules recognize the authority of arbitrators to determine the issue of “competence-competence,” whereas the Arbitration Law only permits people’s courts and committees of Chinese arbitral organs to do so. Moreover, the Rules give the power of arbitrators to grant provisional relief for international cases, which directly challenges the Arbitration Law’s requirement that provisional relief can only be made by national courts. The other innovations such as emergency arbitrator proceedings and amiable composition, too, are all schemes that are not covered by PRC’s Arbitration Law.

Similar schemes can also be seen in the arbitration rules of other local arbitral organs. Examples include the Shanghai International Arbitration Center Arbitration Rules, the China (Shanghai) Pilot Free Trade Zone Arbitration Rules, and the SCIA Arbitration Rules.

How borrowing foreign arbitration rules can help local arbitral organs to attract the kind of international cases they expect to undertake, however, remains uncertain. First, due to their highly innovative nature, these schemes are potentially “unlawful.” Despite their international outlook, they are often inconsistent with Chinese national laws. The use of these mechanisms is thus likely to provoke controversy over their legality and, more immediately, enforceability during post-award processes. Second, the enactment of these rules alone does not necessarily ensure their expected outcomes of application. Prospective users may be able to overcome this implementation problem in part by selecting the arbitrators that they find competent with these measures. But they cannot always do so by choosing the ideal case managers, as they can

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only be appointed by the arbitral organs. More fundamentally, there seems to be a widespread suspicion about the willingness of frontline case managers in these local arbitral organs to take these innovations seriously. One possible indicator of this phenomenon is that most of these innovative measures remain unused.

**Conclusion**

Conventional wisdom has it that dispute resolution forums in home jurisdictions can better safeguard the rights and interests of their nationals. Parties from different countries thus tend to prefer their own national courts and arbitral institutions to handle their cross-border disputes. Chinese parties are unlikely to be the exception. However, choosing dispute resolution venues for international cases is rarely a straightforward process. It often involves processes of negotiation in which parties consider multiple factors to reach decisions. And Chinese parties are particularly vulnerable to widespread concerns about China’s highly nationalist approach to international disputes as well as its underdevelopment of legal infrastructure. The central state’s recent interest in reforming its international arbitration for cross-border commercial disputes is no doubt a response to these concerns. The wide range of regulatory innovations promoted by local governments and front-line arbitral organs, too, all point to a shared assumption that “internationalization” (guojihua) is one effective way to onshore China-related international disputes.

Expected results of these efforts are subject to a number of challenges, however. One such challenge discussed here is the fragmentary and highly experimental nature of these innovative measures. Thus, there remain uncertainties about their legality and practical outcomes of implementation. But more fundamentally, Chinese parties may likewise want to receive the best quality of arbitration services that can protect their rights and interests. Home advantage is surely decisive, but it is not clear that this factor would always preclude other considerations that Chinese parties take into account to choose arbitral forums. Neither does the enactment of these innovations necessarily guarantee the level of professionalism that matches international standards. In sum, the root of these challenges may lie with the outdated Arbitration Law itself and the unfamiliarity of frontline arbitration bureaucrats with international norms and standards. To what extent the recently enacted measures for an “internationalized” arbitral system in China can achieve their goal, then, merits further investigation.

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23 Zuigao renmin fayuan (最高人民法院) [The Supreme People’s Court], Zuigao renmin fayuan bangongting guanyu queding shoupi naru yizhanshi guoji shangshi jiufen duoyuanhua jiejue jizhi de guoji shangshici zhongcai ji tiaojie jigou de tongzhi (最高人民法院办公厅关于确定首批纳入“一站式”国际商事纠纷多元化解决机制的国际商事仲裁及调解机构的通知) [Notice of the General Office of the Supreme People's Court on Determining the First Group of International Commercial Arbitration and Mediation Institutions Included in the “One-Stop Shop” Diversified Mechanisms for Resolving International Commercial Disputes], 2018, China.