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# BIG BUSINESS AND INDUSTRY ASSOCIATION LOBBYING IN CHINA: THE PARADOX OF CONTRASTING STYLES

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In spite of China's continued authoritarian political system, there is growing recognition that business lobbying is an integral part of the country's policy process at both the local and national levels. As thousands of economic regulations and laws have become key determinants of the fate of industry, all types of companies—state-owned and private, Chinese and foreign—have become active in every stage of the policy process, from setting the agenda to identifying policy options and shaping regulatory implementation. Whereas interacting with officialdom used to be the responsibility of an enterprise's senior leader, it is increasingly common for companies to have a defined position or team in charge of government affairs.<sup>1</sup> The number of trade associations representing domestic and foreign companies has grown rapidly, with the greatest expansion recently seen in the proliferation of branches of municipal chambers of commerce outside their home localities (*yidi shanghui* 异地商会).<sup>2</sup> Chinese Mainland scholars and journalists previously only used the term “lobbying” (*youshui* 游说) to refer to the behavior of companies in capitalist countries or multinational companies (MNC) in China, but it is now associated with domestic companies' behavior at home.<sup>3</sup> The discussion of “interest groups” (*liyi jituan* 利益集团) is even more common.<sup>4</sup>

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<sup>1</sup> US–China Business Council, “Conducting Governments in China: Best Practices” (Washington, September 2008).

<sup>2</sup> Pan Zhiliao, “Yidi shanghui danren ‘meipo’”, *Fujian ribao* (Fujian Daily), 5 August 2004; Shen Changwei, “Cong Neimenggu Quanzhou shanghui fazhan kan yidi shanghui zai xibu minying jingji fazhanzhongde zuoyong he diwei”, *Neimenggu tongzhan lilun yanjiu* (Inner Mongolia United Front Theory Research) (May 2005), pp. 37-38; Mu Jia, “Fujian yidi shanghui fazhan weihe ruci pengbo?” (Why Is Development of Fujian Extra-regional Associations So Thriving?), *Zhonghua gongshang shibao* (China Business Times), 16 May 2006.

<sup>3</sup> “Lobbying” refers to any activities undertaken to influence the decisions and actions of officials regarding national and local regulations and policies. Chinese views of what constitutes

Not only has engagement of officialdom risen but, equally importantly, there is growing sentiment that lobbying pays off. Policies for different sectors and the broader economy have been shaped by corporate influence.<sup>5</sup> In some sectors, such as energy, it appears that the basic trajectory has been determined less by a coherent government plan than by companies who have manipulated the government to adopt policies consistent with their interests.<sup>6</sup> Lobbying affects both domestic and foreign economic policies, and companies lobby successfully for greater protection from imports and for increased liberalization.<sup>7</sup>

Nevertheless, although we know that industry is active and shapes policy, there is much less information about how industry engages policymakers. Companies lobby, both directly and through associations, but we have only a rudimentary knowledge of the actual strategies and tactics which they employ and of their rate of success. Some observers have emphasized the importance of personal connections (*guanxi* 关系); but *guanxi* can be manifested in multiple ways.<sup>8</sup> Recent private-sector analyses report

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lobbying are consistent with this definition. See Zhang Yaojie, "Minjian youshui yu lifazhi hudong" (Interaction Between Popular Lobbying and Lawmaking), *Dandai Zhongguo yanjiu* (Modern China Studies), Vol. 11, No. 3 (2004), pp. 73-80; Cheng Hao, Huang Weiping and Wang Yongcheng, "Zhongguo shehui liyi jituan yanjiu" (Research on Interest Groups in Chinese Society), *Zhanlüe yu guanli* (Strategy and Management), No. 4 (2003), pp. 63-74; and Tian Zhilong and Gao Haitao, "Zhongguo qiye de youshui xingwei jiqi lunli guifan yanjiu" (Research on Chinese Enterprises' Lobbying Behavior and Their Ethical Criteria), *Guanli xuebao* (Chinese Journal of Management), Vol. 3, No. 5 (September 2006), pp. 560-68, 579.

- <sup>4</sup> Yang Zhi, "Qiyehuayehuayoushuizhengfu?" (How Do Companies Lobby Government?), *Quanqiu caijing guancha* (Global Business Observer), 28 February 2005; Pang Jiaoming, "Ge liyi jituan youshui 'gongsifa'" (Various Interest Groups Lobby the Company Law), *Shangwu zhoukan* (Business Weekly), 19 April 2005; Gu Jun, "Zhixiaofa jiu tuo bujue, zhong jutou juhui beijing youshui" (Direct Sales Law Delayed Without Decision, Many Heads Meet in Beijing to Lobby), *Dongfang zaobao* (Eastern Morning News), 12 January 2005; Jiang Tong, "Jingti bumen liyi pengzhang" (Guard Against the Expansion of Departmental Interests), *Liaowang* (Outlook), 9 October 2006. To view a blog devoted to lobbying in China, visit <http://www.lobbychina.org> (last accessed 15 December 2009).
- <sup>5</sup> Scott Kennedy, *The Business of Lobbying in China* (Cambridge MA: Harvard University Press, 2005).
- <sup>6</sup> Phillip Andrews-Speed, *Energy Policy and Regulation in the People's Republic of China* (London: Kluwer Law International, 2004); Erica S. Downs, "China's Quest for Overseas Oil", *Far Eastern Economic Review* (September 2007), pp. 52-56; Edward A. Cunningham, "China's Energy Governance: Perceptions and Reality", *The Audit of the Conventional Wisdom Series*, MIT Center for International Studies, Vol. 7, No. 4 (March 2007).
- <sup>7</sup> Scott Kennedy, "China's Porous Protectionism: The Changing Political Economy of Trade Policy", *Political Science Quarterly*, Vol. 120, No. 3 (Fall 2005), pp. 407-32; "CNPC, Sinopec Lobby for Oil Products Import Tariff Cut, Report", Xinhua News Agency, 18 March 2008.
- <sup>8</sup> Thomas Gold, Doug Guthrie and David Wank (eds), *Social Connections in China: Institutions, Culture, and the Changing Nature of Guanxi* (Cambridge: Cambridge University Press, 2002).

that *guanxi*'s currency is less valuable than in the past.<sup>9</sup> Yet if so, what other tools are being utilized? Do different kinds of companies or associations engage government differently, and with different results?

This article takes a step forward in developing a more comprehensive and systematic way to analyze business lobbying in China to increase our understanding of the tactics and strategies which companies and associations employ as they seek to influence national Chinese public policy. In so doing, we adapt the theoretical framework and methods used to study corporate political activity in advanced economies to the Chinese context. In particular, we report the results of recently conducted surveys of very large companies and national industry associations in China about their lobbying strategies *vis-à-vis* national government economic policies. The findings indicate surprising commonalities in lobbying behavior across a wide variety of companies, yet identify equally unexpected differences between companies and business associations.

In the next section, we review the extant research on government–business relations in China to identify progress to date and the reason for continuing gaps in our knowledge. We then outline our research strategy, with a description of the overarching framework, the design of the surveys and the composition of the sampled companies and associations. The paper then turns to a four-staged discussion of the findings. We identify the main strategies and tactics which individual companies use to lobby Beijing, highlight the contrasts with associations, explain the sources of their differing behavior and then consider alternative explanations for their differences in capacity to influence policies. We conclude by considering the implications of our findings for how to envision government–business relations in China and by sketching out a future research agenda.

### **Beyond Political Regime Studies**

There is a growing literature on government–business relations in China, but much of it is oriented in a way that does not fully address issues of lobbying behavior. Political regime studies focus on whether the CCP's hold on power is stable or whether there are signs that a civil society is emerging to challenge the political status quo.<sup>10</sup> These studies examine the actors who are most likely to be vehicles of political change: private entrepreneurs. State-owned enterprises and multinational corporations (MNC) are usually disregarded because they are not

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<sup>9</sup> Elizabeth Judd, *Good Guanxi: Managing Government Relations in China* (Washington: Foundation for Public Affairs, 2008); US–China Business Council, “Conducting Government Affairs in China: USCBC Survey Results” (Washington, November 2007); US–China Business Council, “Conducting Governments in China: Best Practices”.

<sup>10</sup> David L. Wank, *Commodifying Communism*; Bruce J. Dickson, *Red Capitalists in China: The Party, Private Entrepreneurs, and Prospects for Political Change* (Cambridge: Cambridge University Press, 2003); Bruce J. Dickson, *Wealth Into Power: The Communist Party's Embrace of China's Private Sector* (Cambridge: Cambridge University Press, 2008); Kellee S. Tsai, *Capitalism Without Democracy: The Private Sector in Contemporary China* (Ithaca: Cornell University Press, 2007).

expected to be in the political vanguard.<sup>11</sup> Since private companies are usually small and operate in a single locale, attention is also typically directed at their interaction with local governments rather than the central government in Beijing. The main substantive issues usually concern enterprise-specific problems such as onerous regulations or the need for licenses or financing. Moreover, the unit of analysis of these studies is the individual entrepreneur, not the company as an organization. The key behavioral yardstick is to determine whether entrepreneurs and their associations have a cooperative (co-opted) relationship with officialdom or whether they display substantial autonomy.

This research agenda has proven invaluable in debunking the notion that China's capitalist transition is generating pressure for democratization from business. Yet by their design these studies do not sufficiently address questions about non-state actors' influence on public policy. One cannot understand how industry as a whole behaves, or compare firms having different ownership forms, nationalities and sizes, unless they are studied together. One cannot extrapolate from local state interaction to how firms may behave in national policy debates. With a focus on individuals, one cannot consider how companies (or industry associations) mobilize their staff and various departments to promote the company's corporate interests as a whole.

Though less noticed, there is also an emergent literature that examines the policy involvement of companies in China. This work has its origins in the "corporate political activity" (CPA) studies popular in American and European business schools. This scholarship explores the methods which companies use to affect policy, who their primary targets are, whether companies' behavior varies by size or sector, how companies' internal organization and staffing shapes their lobbying, how governments and political institutions shape the nature of corporate political activity and how MNCs participate in the policy process abroad.<sup>12</sup> The vast majority of these studies examine CPA in wealthy capitalist democracies, but work on China has recently emerged. The earliest wave of studies focused on how MNCs in China attempt to overcome their "liability of foreignness" in order to receive company-specific benefits to influence laws and regulations.<sup>13</sup> These studies have been joined

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<sup>11</sup> The primary exception is Pearson, whose work focused on MNCs. However, she is most concerned not with MNCs as institutions but with the behavior of the individual Chinese employees who work in them. Her goal is to see if the group of Chinese who are institutionally and economically most autonomous from the state are more likely to behave in a way that could challenge the state politically; she finds that they are not. Margaret M. Pearson, *China's New Business Élite: The Political Consequences of Economic Reform* (Berkeley: University of California Press, 1997).

<sup>12</sup> Two excellent summaries and analyses of this literature are Jean J. Boddewyn, "The Internationalization of the Public-Affairs Function in U.S. Multinational Enterprises: Organization and Management", *Business & Society*, Vol. 46, No. 2 (June 2007), pp. 136-73, and Amy J. Hillman, Gerald D. Keim and Douglas Schuler, "Corporate Political Activity: A Review and Research Agenda", *Journal of Management*, Vol. 30, No. 6 (December 2004), pp. 837-57.

<sup>13</sup> Rajib N. Sanyal and Turgut Guvenli, "Relations between Multinational Firms and Host Governments: The Experience of American-Owned Firms in China", *International*

by a new wave of work focused on the behavior of domestic Chinese companies.<sup>14</sup> The main contributors are PRC-based scholars who publish in Chinese and Western academic business journals. There is no research on business lobbying being published by Chinese political scientists.

Although they utilize a different approach, their findings are largely consistent with political regime studies. The general impression given is that Chinese and foreign companies lobby differently. These studies conclude that, in contrast to the West, Chinese enterprises do not provide information to officials in formal settings, do not participate in hearings and do not commission research projects or provide position papers.<sup>15</sup> Nor do Chinese companies try to influence media coverage on issues relevant to policy.<sup>16</sup> Domestic enterprises tend to be passive, primarily engaging with officials to address company-specific problems. In doing so, they depend heavily on *guanxi*, which according to some, is a product of the country's Confucian heritage.<sup>17</sup> MNCs do have to utilize *guanxi*, but they draw on a larger toolkit, which includes leveraging their technological expertise and their home-country governments.<sup>18</sup>

Although these studies confirm earlier perceptions, methodological weaknesses limit their potential contribution. Many of the articles offer little empirical data, and instead provide illustrative anecdotes or case studies.<sup>19</sup> The examples are not chosen

*Business Review*, Vol. 9, No. 1 (February 2000), pp. 119-34; Yadong Luo, "Toward a Cooperative View of MNC-Host Government Relations: Building Blocks and Performance Implications", *Journal of International Business Studies*, Vol. 32, No. 2 (Third Quarter 2001), pp. 401-19; Yi-Ru Regina Chen, "Effective Public Affairs in China: MNC-Government Bargaining Power and Corporate Strategies for Influencing Business Policy Formation", *Journal of Communication Management*, Vol. 8, No. 4 (2004), pp. 395-413; Yongqiang Gao, "Institutional Environment and MNEs' Strategy in Transitional China", *Managing Global Transitions*, Vol. 6, No. 1 (Spring 2008), pp. 5-21.

<sup>14</sup> Yongqiang Gao and Zhilong Tian, "How Firms Influence the Government Policy Decision-making in China", *Singapore Management Review*, Vol. 28, No. 1 (January 2006), pp. 73-85; Zhilong Tian and Xinming Deng, "The Determinants of Corporate Political Strategy in Chinese Transition", *Journal of Public Affairs*, Vol. 7, No. 4 (November 2007), pp. 341-56; and Wei Wu, "Influence of Political Relationship Building on the Business Activity of Firms in China", *Singapore Management Review*, July 2008.

<sup>15</sup> Yongqiang Gao, "Corporate Political Action in China and America: A Comparative Perspective", *Journal of Public Affairs*, Vol. 6, No. 2 (May 2006), pp. 117-18.

<sup>16</sup> Tian Zhilong, Gao Yongqiang and Wei Wu, "Zhongguo qiye zhengzhi celue yu xingwei yanjiu" (Research on Chinese Enterprise Political Tactics and Activity), *Gongshang guanli lilun luntan* (Theoretical Forum on Business Management), No. 12 (2003), pp. 98-106, 127.

<sup>17</sup> Yongqiang Gao, "Institutional Environment and MNEs' Strategy in Transitional China".

<sup>18</sup> Yadong Luo, "Toward a Cooperative View of MNC-Host Government Relations"; Yi-Ru Regina Chen, "Effective Public Affairs in China"; and Yi-Ru Regina Chen, "The Strategic Management of Government Affairs in China: How Multinational Corporations in China Interact With the Chinese Government", *Journal of Public Relations Research*, Vol. 19, No. 3 (May 2007), pp. 283-306.

<sup>19</sup> Yongqiang Gao and Zhilong Tian, "How Firms Influence the Government Policy Decision-making in China".

with reference to a broader theoretical framework that justifies why some cases are discussed rather than others.<sup>20</sup> One contribution compares three companies of different ownership forms, but it does not use the cases to make larger claims about the effect of ownership.<sup>21</sup> Several studies employ surveys, but they either use an extremely small sample (fewer than 40 firms) or they obtained their sample inappropriately, introducing major biases or ethical dilemmas that are difficult to overcome.<sup>22</sup>

Due to such research design problems, one has to be cautious in interpreting these findings. Three new areas deserve attention. First, more attention needs to be paid to the national government. Second, more effort should be directed to measuring the extent to which political activity pays off; industry's actual influence on policy should be analyzed.<sup>23</sup> Third, companies and industry associations should be explicitly compared.<sup>24</sup>

### Surveying Companies and Associations

Parallel surveys of companies and associations were conducted in the summer of 2007 to understand lobbying strategies toward the national government. To ensure as accurate a picture as possible, company respondents were executives responsible for government affairs, and association respondents were the secretaries-general, the people in charge of daily operations.<sup>25</sup> The company survey focused on firms with annual sales of at least 500 million yuan per year with an office in Beijing staffed by at least one person responsible for government affairs (GA). The sample

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<sup>20</sup> Yi-Ru Regina Chen, "Effective Public Affairs in China".

<sup>21</sup> Tian Zhilong, He Yuanjiong and Gao Haitao, "Zhongguo qiye feishichang culue yü xingwei yanjiu" (Research on Chinese Enterprises' Nonmarket Tactics and Behavior), *Zhongguo gongye jingji* (China Industrial Economy), No. 9 (September 2005), pp. 82-90.

<sup>22</sup> One scholar used the "snowballing" technique (asking companies which she surveyed to recommend others who could be included), which may be appropriate for in-depth interviews and comparative case studies but not for formal surveys. In another case, professors surveyed entrepreneurs who were students in their e-MBA courses. Yi-Ru Regina Chen, "The Strategic Management of Government Affairs in China"; and Zhilong Tian and Xinming Deng, "The Determinants of Corporate Political Strategy in Chinese Transition", *Journal of Public Affairs*, Vol. 7, No. 4 (November 2007), pp. 341-56.

<sup>23</sup> Most studies try to measure business influence by comparing financial contributions received by politicians to the benefits provided to an industry, such as fiscal support, or to their economic performance. For example, see Jin-Hyuk Kim, "Business Lobbying Revisited", *Business and Politics*, Vol. 10, No. 2 (May 2008), Article 3.

<sup>24</sup> For interesting case studies, see Li Xiufeng and Zeng Wenyan, "Hangye xiehui dui zhengce xingchengde yingxiang" (Policy Influence Formed by Industry Associations), *Guojia xingzheng xueyuan xuebao* (National Administration College Journal), No. 3 (2006), pp. 76-78; and Cheng Hao, Huang Weiping and Wang Yongcheng, "Zhongguo shehui liyi jituan yanjiu" (Research on Interest Groups in Chinese Society), *Zhanlue yu guanli*, No. 4 (2003), pp. 63-74.

<sup>25</sup> All the company surveys were administered in person. Just over half the association surveys were based on face-to-face interviews, and the rest on mailed questionnaires.

was limited to the country's largest firms with GA staff working in Beijing, in order to examine the category of companies most likely to be active in national economic policy-making.<sup>26</sup>

Companies were selected through a "probability sampling with quotas" process in order to have adequate representation of firms of different ownerships and nationalities.<sup>27</sup> Of the 131 companies surveyed, 84 (64.1 per cent) were Chinese, 43 (32.8 per cent) were foreign and 4 (3.1 per cent) were from Hong Kong. In terms of ownership, 46 (35.1 per cent) were state-owned enterprises (SOE), 38 (29.0 per cent) were domestic private companies and 47 (35.9 per cent) foreign or from Hong Kong. The ownership distribution differs from the actual national average—12.8 per cent for SOEs, 66.5 per cent for privately-run firms and 20.7 per cent for foreign-invested firms. There is no data on ownership distribution of firms of this size, but it is likely that they are predominantly SOEs and foreign firms.<sup>28</sup> The companies are from a wide assortment of sectors, with 90 (68.7 per cent) focused on a single industry and 41 (31.3 per cent) diversified in multiple sectors. Lastly, there was wide variation in their government affairs staff. Many companies had just one or two designated government affairs staffers, with the most being seven. A slight majority (57.3 per cent) did not have a government affairs staffer who had previously worked in the CCP or government.

The association survey is based on a sample of national-level Chinese industry associations, which were also selected through a probability quota system.<sup>29</sup> The sample of associations is reflective of China's actual conditions with regard to the organization to which they are affiliated (*guakao danwei* 挂靠单位) and their relative

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<sup>26</sup> There is extensive comparative research which indicates that larger firms are the most politically active. Lester M. Salamon and John J. Siegfried, "Economic Power and Political Influence: The Impact of Industry Structure on Public Policy", *American Political Science Review*, Vol. 71, No. 3 (September 1977), pp. 1026-43; and Jeffrey M. Drope and Wendy L. Hansen, "Does Firm Size Matter? Analyzing Business Lobbying in the United States", *Business and Politics*, Vol. 8, No. 2 (August 2006), Article 4.

<sup>27</sup> A "probability sample with quotas" involves dividing the sample into mutually exclusive groups, each of which is then filled to a pre-determined proportion of the overall sample. In this case, the company survey had quotas for firms of different ownership and nationality forms. An original database of 850 firms fulfilling the basic requirements (minimum size, a Beijing office, and someone responsible for government affairs) was developed. Firms were contacted randomly until the quota for each type of firm was fulfilled. A total of 274 firms were contacted, and 131 agreed to be surveyed, a rate of 47.8%.

<sup>28</sup> *China Statistical Yearbook 2007* (Beijing: National Bureau of Statistics of China, 2007), available online at: <http://www.stats.gov.cn/tjsj/ndsj>, last accessed 15 December 2009.

<sup>29</sup> The association survey had quotas for associations of different levels of autonomy, based on whether or not they were affiliated with a government organization. Surveys were mailed to 392 national industry associations based on a 2004 database. Thirty-five were returned completed by respondents; 38 more of the 392 were then randomly chosen, contacted by phone, and then interviewed in person, for a total of 73 valid responses. There was no statistically significant difference in answers between those associations completing mailed surveys and those who were interviewed.

degree of autonomy *vis-à-vis* the government. Of the country's 711 national associations, 42.9 per cent are affiliated with the State-owned Assets Supervision and Administration Commission (SASAC), compared to 49.3 per cent of the survey sample. Another 36.6 per cent of associations are affiliated with a ministry or commission, compared to 32.9 per cent in the survey; 3.9 per cent of the country's national associations are affiliated with the All-China Federation of Industry and Commerce (ACFIC) and 2.9 per cent with the China Council for the Promotion of International Trade (CCPIT), compared to 5.5 per cent and 2.7 per cent of the sample, respectively. The remaining 9.6 per cent of the surveyed associations have no direct supervising authority to which they are accountable.<sup>30</sup> Associations in the sample also varied in the composition of their membership (company size, ownership and representativeness of the sector) and the composition of their government affairs staff. Under half (42.5 per cent) have two or fewer GA staff; whereas only a slight minority of companies had GA staffers with CCP or government work experience, 63 per cent of associations had former officials in their ranks.

The company questionnaire sought answers to three sets of questions. The first involved background information about the company's basic characteristics and its GA staff. The second area revolved around the company's lobbying behavior *vis-à-vis* the government; most questions focused specifically on the national government, but some were broad enough to include local government as well.<sup>31</sup> It tried to determine whether companies take a more proactive or passive approach in dealing with officials on policy issues, that is, do they try to set the agenda and influence policy over an extended period or do they react to regulatory problems as they arise. Adapting the framework that Hillman and Hitt employ with regard to American and European firms, the survey asked a series of questions concerning their lobbying strategies and tactics. The three strategy categories—Information, Public Relations and Trust—refer to the underlying motivational mechanism a company uses to persuade an official to accept their position.<sup>32</sup> Specific Information tactics include the provision of oral or written

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<sup>30</sup> A Tsinghua study found that only about 14.2 per cent of industry associations nationally were genuinely founded at the initiative of their members. Huang Mengfu, *Zhongguo shanghui fazhan nianbao*, No. 2 (China Chamber Development Annual Report no. 2) (Beijing: Social Sciences Academic Press, 2008), p. 8.

<sup>31</sup> The survey consistently used the broad term "local government" (*difang zhengfu*), but we expect that respondents understood this to mean provincial and city governments, given that, to the extent that the government-affairs staff of large corporations and national industry associations interact with officialdom below the national level, it is most likely with provincial and city officials.

<sup>32</sup> Hillman and Hitt divide strategies into informational, constituency-building and financial categories. Constituency strategy involved grass-roots efforts to attract popular support for elections and policy mobilization campaigns. The questions in this survey were modified to be about company's policy-relevant public relations behavior. The financial strategy involved making contributions to politicians running for office. No questions in this survey were asked about financial incentives, because Chinese officials do not need to raise funds for campaigns and it was deemed too sensitive to ask in a formal survey about other material inducements that companies

policy-relevant information in both informal settings such as private meetings and in formal situations such as public hearings. The Public Relations strategy refers to company efforts to improve the company's popular image and generate media coverage that is consistent with the company's policy preferences. The Trust strategy suggests efforts by companies to influence policymakers by gaining their personal trust, which is another way to say, build *guanxi*. Companies were then asked about the frequency with which they engaged officials in ministries and commissions under the State Council, the National People's Congress (NPC), the Chinese People's Political Consultative Conference (CPPCC) and local governments. Respondents were also asked about their views and use of industry associations. The last set of questions focused on the results of lobbying. Respondents were asked to gauge the policy influence of industry generally as well as their own company's influence *vis-à-vis* the central and local governments. The association questionnaire was almost identical, except for including more questions about associations' appropriate role and course of action in certain circumstances (for example, when its members and the government disagree, which side should the association support). The surveys were implemented by Horizon Research Consultancy Group and Peking Sinowitts Management Consulting Company, two survey organizations with extensive experience polling large companies and industry associations, respectively.<sup>33</sup>

The survey design not only provides insight into how respondents participate in policymaking but, more importantly, permits identification of linkages between company and association characteristics, their activities and their influence. Since companies and associations were both surveyed, these two groups' behavior can be systematically compared.

However, the survey has at least two weaknesses. First, although larger than most other corporate political activity surveys in China, the sample is still small enough for

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may make toward officials. Instead, questions were asked about efforts to build personal trust with officials. Amy J. Hillman and Michael A. Hitt, "Corporate Political Strategy Formulation: A Model of Approach, Participation and Strategy Decisions", *Academy of Management Review*, Vol. 24, No. 4 (October 1999), pp. 825-42. Another study on China that borrows from Hillman and Hitt uses six strategy categories, but there does not appear to be a consistent logic in how the strategies were conceived. See Zhilong Tian and Xinming Deng, "The Determinants of Corporate Political Strategy in Chinese Transition".

<sup>33</sup> Author Guosheng Deng hired Horizon and Peking Sinowitts to carry out the two surveys. Horizon is China's most authoritative commercial polling organization, and has far more experience in surveying large corporations than any of China's purely academic survey organizations, an asset which was critical in identifying the chief person responsible for government affairs in large firms and persuading them to participate in the survey. Peking Sinowitts was selected to implement the association survey because of its extensive experience in polling Chinese non-governmental organizations. In both cases, Deng participated in the training of the interviewers, received regular reports from both organizations during the survey process, was provided with in-depth debriefings along with the raw data after the surveys were completed, and had follow-up contact numerous times with both organizations, to ensure accuracy and thoroughness.

multivariate regression analysis to be difficult to utilize; hence, we depend heavily on bivariate cross tabulations to identify correlations between firm and association characteristics, lobbying methods and policy influence.<sup>34</sup> Second, no questions ask directly about financial inducements, legal or otherwise, because this was deemed too sensitive a topic for a formal survey, leaving an important area of inquiry for future studies.

### **Companies' Government-Affairs Work: Working Every Angle**

The survey suggests that elite companies in China are highly engaged with officials in the policy process. Less than 7 per cent of those surveyed said they wait until a problem arises before developing plans to influence the government. Over 90 per cent of companies report that they regularly engage the government in a number of ways during the course of the year. In terms of strategic approaches, as others have found, companies do engage in trust-building, for example, by hosting banquets, and almost 70 per cent of respondents agree with the statement that “*guanxi* is the key to influencing public policy”. On the other hand, 80 per cent of companies agree that “good *guanxi* with local government is more important than with the central government”. Moreover, by dint of their other activities, companies reveal that they depend on much more than connections to shape policy.

First and foremost, companies attempt to influence policy by shaping the substantive views of officials (see Table 1). Firms routinely provide information in oral and written forms and host policy-related meetings with policymakers. Over 85 per cent of firms participate in legislative or administrative hearings, and three-quarters support scholarly research on policy-related matters.<sup>35</sup> Companies also routinely use public relations in support of their policy goals. Engaging the media involves much more than providing “red envelopes” (*hongbao*) to generate good attendance at press conferences and positive stories. Almost all surveyed companies submit articles to the media, and almost 90 per cent hold press conferences that touch on policy issues.<sup>36</sup> Somewhat fewer, but still a sizeable majority (59.6 per cent), run training sessions for journalists, and 83.2 per cent of the sample engage in philanthropy. Others have found that MNCs use these strategies, but this survey found that such activities are not limited to the supposedly more sophisticated foreign companies.<sup>37</sup> In terms of frequency, information-

<sup>34</sup> Similarly, because of the small sample size and large number of sectors represented among the surveyed firms and associations (almost 20), we can draw only the most tentative conclusions about how sectors may affect lobbying behavior.

<sup>35</sup> Since the mid-1990s, China has held legislative and administrative hearings (*tingzhenghui*) in which people from industry, non-governmental organizations and other communities testify before local and national legislative bodies and administrative organs. For more information, see Scott Kennedy, “Comparing Formal and Informal Lobbying Practices in China: The Capital’s Ambivalent Embrace of Capitalists”, *China Information*, Vol. 22, No. 2 (July 2009), pp. 208-11.

<sup>36</sup> For a study which reports how the car company Geely uses the media to push for greater policy benefits for auto sector, see Tian Zhilong and Gao Haitao, “Zhongguo qiye de youshui xingwei jiqi lunli guifan yanjiu”, p. 563.

<sup>37</sup> The US–China Business Council survey found similar results; 77 of their members engage with PRC scholars and researchers as part of policy advocacy. US–China Business Council,

oriented tactics are most common. Almost 60 per cent of companies provide policy information in written form at least twice per year and 15.3 per cent do so at least once per month. Public relations efforts are the second most common, with over 60 per cent of companies submitting articles to the media at least twice per year and 12.2 per cent at least once per month. About 60 per cent of companies host a banquet once per year and 27.5 per cent do so at least twice annually.

**Table 1: Company Ownership and Nationality: Do They Matter? (%)<sup>1</sup>**

	All Companies	State-Owned Companies	Private Companies	Foreign Companies
<b>Lobbying Target</b>				
Interacts with State Council ministries and commissions	96.9	95.7	100.0	95.7
Interacts with NPC	82.4	84.8	81.6	80.9
Interacts with CPPCC	54.9	72.7	55.3	38.3
Interacts with local government	96.9	95.7	100.0	95.7
<b>Lobbying Methods</b>				
Contacts the State Council to obtain policy information	93.8	97.8	94.7	88.9
Provides company/industry information	93.8	97.8	92.1	91.3
Hosts policy-related meetings	96.1	100.0	94.7	93.3
Supports scholarly research on policy	74.8	82.6	81.6	61.7
Submits articles to media	98.5	97.8	100.0	97.9
Engages in philanthropy	83.2	89.1	78.9	80.9
Hosts banquets with officials	95.9	100.0	88.6	97.7
<b>Influence</b>				
Agrees industry influence risen in last three years	68.4	71.7	58.6	71.8
Agrees SOEs more influential than private	67.2	78.3	71.0	53.2
Agrees FIEs influential	76.3	84.7	71.0	72.3

Note:

1. For activities, figure is cumulative percentage of respondents in each category who said they engaged in the activity at least once per year.

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“Conducting Government Affairs in China: USCBC Survey Results”. Judd reports that MNCs extensively engage the media. Elizabeth Judd, *Good Guanxi*, pp. 21-22. One MNC executive whom we interviewed following the survey reported that he and others in industry regularly “pay for research [that fits our views] and have it delivered to the government”. Interview, Beijing, November 2008.

In addition, companies engage all parts of the government. Ministries and commissions under the State Council and local governments are the most frequently contacted (see Table 2). This makes sense because national ministries have the greatest role in drafting regulations and local governments most directly regulate companies' quotidian operational issues. In addition, however, the NPC, the CPPCC and their deputies are also regular targets. This is particularly surprising with regard to the CPPCC, since it has no authority to issue regulations; but companies find it worth engaging, because its members still have a formal consulting role that gives them an institutionalized voice in the deliberative process.<sup>38</sup>

**Table 2: Targets of Company Lobbying (Minimum frequency of interaction, of companies) (%)**

	Never	Once/ year	Once/ half- year	Once/ month	Once/ week	Total Contact, Combined
State Council Agencies	3.1	74.0	17.6	4.6	0.8	96.9
NPC	17.6	67.9	13.7	0.8	0	82.4
CPPCC	45.0	47.3	7.6	0	0	54.9
Local Governments	3.1	19.1	61.8	16.0	0	96.9

Aside from direct interaction, companies also engage government through intermediaries. The most common are industry associations and chambers of commerce. Companies belong to anywhere between two and nine industry groups, with the modal number being five. A minority of companies use alternative intermediaries to reach policymakers, with the most being law firms (27.5 per cent said they had done so within the previous year), followed by government affairs consultancies (14.5 per cent), public relations firms (7.6 per cent) and general consulting companies (6.9 per cent).

One of the most surprising findings about company lobbying is that firm ownership and nationality have very little effect on reported behavior (see Table 1). All types of companies draw on a range of informational, public relations and trust-building tactics. They are all members of industry associations and chambers of commerce, but they are infrequent users of newly emerging intermediaries (such as law and lobbying firms). SOEs have slightly more frequent contact with officials across organizations, but the differences are of degree and not kind. Although SOEs somewhat more commonly use associations as intermediaries to connect with officials, they have somewhat less confidence in associations' policy

<sup>38</sup> Similar findings are reported by Tian Zhilong and Gao Haitao, "Zhongguo qiye de youshui xingwei jiqi lunli guifan yanjiu"; Cheng Hao, Huang Weiping and Wang Yongcheng, "Zhongguo shehui liyi jituan yanjiu"; US-China Business Council, "Conducting Government Affairs in China: USCBC Survey Results"; and "Lobbyists Target China Legislators", *Wall Street Journal*, 9 March 2006.

influence than do private-sector firms. SOEs also give slightly more credence to industry influence, but the differences with their private and foreign counterparts are not that dramatic. Such political activism is common among companies across the full range of traditional and newer industries. These similarities reflect the common need to be active on policy matters, as well as probably learning from each other about what tactics are available and effective.

With so much activity, one might expect companies to be highly influential. Respondents did agree that industry as a whole has become more influential, and they agreed that larger companies are more influential than smaller ones, SOEs are more influential than private companies, and that even foreign-invested firms have become more influential of late. However, companies were rarely willing to admit their own influence. Only seven of 131 (5.3 per cent) companies surveyed said that they had ever successfully influenced the central or local governments to adopt a certain policy and only two (1.5 per cent) said that they had ever managed to influence the central or local government to revise or discontinue an existing policy. This self-reported limited influence is consistent with state-centric views of China's policy process but, as will be shown below, there are good reasons to be skeptical of this interpretation.

### **Industry Associations: Less Active but Apparently More Influential**

If the similarity in lobbying behavior across firms is unexpected, even more surprising is the stunning contrast between firms and associations on just about every aspect of lobbying. Despite the fact that they operate in the same political environment, the manner in which they engage policymakers and the outcome of their interactions differ starkly. There is no precedent for these differences in other countries. The assumption of consistency between company and association behavior is so ingrained that it has not been the topic of any systematic research to date. Also, a side-by-side comparison of studies about company and association lobbying in several countries reveals no obvious differences.<sup>39</sup> In discussions with company and industry association representatives in the United States, we found a general consistency in their approaches to government affairs. Hence, the prominence of this difference in China is quite puzzling.

Industry associations in China are proactive, but not to the degree displayed by elite companies. Only 6.9 per cent of companies wait for a problem that directly affects their interests to arise before contacting the government, while 28.8 per cent of associations do so. While 93.1 per cent of companies pro-actively

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<sup>39</sup> A good example is the research on government affairs in Russia, where it appears that associations and companies behave similarly. See William Pyle, "Collective Action and Post-Communist Enterprise: The Economic Logic of Russia's Business Associations", *Europe-Asia Studies*, Vol. 58, No. 4 (June 2006), pp. 491-521; and Timothy Frye, "Capture or Exchange? Business Lobbying in Russia", *Europe-Asia Studies*, Vol. 54, No. 7 (2002), pp. 1017-36.

give company and industry information to the government, 78.1 per cent of associations do so. Further, 91.6 per cent of companies contact the government regularly to obtain policy information, whereas only 67.1 per cent of associations do so. It would be unfair to call associations passive, but there appears to be less urgency in their work.

**Table 3: Contrasting Lobbying Behavior (%)**

	Companies	Associations	P-value <sup>3</sup>
<b>Information Strategy<sup>1</sup></b>			
Provides policy information in written form	99.2	86.3	0.078
Hosts policy meetings, invites officials to attend	96.1	76.6	0.000
Participates in public hearings	87.5	8.0	0.000
Supports scholarly research about the industry	74.8	58.6	0.035
Orally provides policy information	25.2	90.2	0.000
<b>Public Relations Strategy<sup>1</sup></b>			
Submits articles to the media	98.5	89.7	0.026
Hosts press conferences on policy issues	89.3	17.5	0.000
Engages in philanthropy	83.2	23.3	0.000
Runs policy-oriented training sessions for media	59.6	7.7	0.000
<b>Trust-Building Strategy<sup>2</sup></b>			
Hosts banquets with officials	95.9	47.0	0.000
Good <i>guanxi</i> with the <u>local</u> government is most important	80.1	17.0	0.000
Good <i>guanxi</i> is the key to policy influence	70.0	58.2	0.029
Has very good <i>guanxi</i> with central government officials	18.5	63.3	0.000

1: Respondents were asked if they engaged in these behaviors at least once every year, half-year, month, or week, or never. The figures reported here combine all responses where there was behavior of at least once per year.

2: The banquet question asked about frequency of holding banquets. For the other three questions in this section, respondents were asked if they “completely agree”, “generally agree”, “neither agree nor disagree”, “generally disagree” or “completely disagree” with these statements. The reported figure here combines those who responded “completely agree” and “generally agree”.

3: Two-tailed t-test to determine if the differences in responses between companies and associations are statistically significant. The lower the p-value, the higher the significance.

The contrasts become even clearer when one compares strategies (see Table 3). Companies use all three strategies and a variety of tactics within each. They provide policy-relevant information through multiple channels, attempt to build the public

image of their firm and sector through the media and by engaging in philanthropy and try to build trust with officials, particularly at the local level. Associations provide policy information orally more often, but on every other measure they trail companies. The latter more often provide written reports, testify at public hearings and support scholarly research. Associations commonly contribute articles to the media but otherwise have little interaction with the press, and they rarely donate to social causes. Creating a broader environment sympathetic to their sector is a low priority. Moreover, association officials do not agree with their enterprise cousins that building personal trust with officials is highly relevant; however, they believe they have good relations with government despite their limited attention to developing such ties.

**Table 4: Contrasting Lobbying Targets (%)<sup>1</sup>**

	Companies	Associations	P-value
State Council Agencies	96.9	98.6	0.488
NPC	82.4	18.0	0.000
CPPCC	54.9	18.0	0.000
Local Governments	96.9	70.5	0.001

Note:

1. Respondents were asked if they interact with different parts of the government at least once per year, half-year, month, week or day. The figure here is the combined total of interaction.

The differences are equally obvious when it comes to which parts of the government are targeted. Both industry associations and companies lobby ministries and commissions under the State Council, with 97 per cent of both doing so at least once per year. Associations are more intensive in their interaction, with 52.1 per cent interacting with State Council agencies at least once per month, compared to just 5.3 per cent of companies. However, such contact comprises most of the associations' interaction with officialdom. A majority of associations contact local governments, though no more than a quarter do so monthly, and over 70 per cent of the associations surveyed have never interacted with the National People's Congress or Chinese People's Political Consultative Conference. On the other hand, companies routinely interact with these other parts of the national policy structure. Moreover, they interact with local governments even more frequently than they do with State Council agencies.

The final distinguishing characteristic of company and industry lobbying is the contrasting judgements about policy influence. Companies and associations largely agree about industry's policy influence in general, with both believing that industry's effect on policy has risen over the past three years. Companies and associations also agree in the highest proportions that large companies are particularly influential, regardless of ownership or nationality. Their main disagreement at an abstract level concerns the foreign sector, with over three-quarters of companies, compared to only 31.5 per cent of associations, believing that foreign companies have "important

influence on central government economic policies and regulations”, and SOEs and domestic private companies have the same opinion about MNC influence.

**Table 5: Lobbying Influence (%)<sup>1</sup>**

	Companies	Associations	P-value
<b>Industry Influence</b>			
Larger companies are more influential than smaller ones.	78.6	91.3	0.011
Industry’s influence has risen over the past three years.	68.4	52.9	0.034
Foreign industry has important policy influence.	76.3	38.3	0.000
SOEs are more influential than private companies.	67.2	57.6	0.196
<b>Your Own Influence</b>			
Has your company (association) successfully influenced a central or local government policy?	5.4	67.3	0.000
Has your company (association) successfully influenced the central or local government to revise or halt a policy?	1.5	47.5	0.000

Note:

1. Respondents were asked if they “fully agreed”, “generally agreed”, “neither agreed nor disagreed”, “generally disagreed” or “completely disagreed” with the general statements. They were asked dichotomous yes-no questions about their own policy influence.

However, the more stark—and ironic—difference concerns respondents’ judgements about their own policy influence. Whereas only 7 of 131 companies surveyed (5.3 per cent) reported that they had successfully lobbied to have a policy adopted, over 67 per cent of associations report having had such influence. Over 47 per cent of associations said they have persuaded the central or local governments to revise or abandon a policy, compared to only 1.5 per cent of companies. These gaps are surprising, given that companies are more proactive, draw on a wider range of strategies and connect with a broader spectrum of the national and local governments. Despite their narrower focus and more deliberate posture, associations claim to be highly effective and efficient lobbyists.

### **Contrasting Behavior: Competition and Autonomy Matter**

One explanation for the sharp differences between firms and associations could be the biases of our sample. In addition to SOEs, we included domestic private firms and MNCs, while all of the associations are domestic. This explanation, however, does not fit the data. As shown in Table 1, companies of all types behave similarly, regardless of ownership and nationality, but their behavior differs from that of associations. Moreover, it is *state-owned* companies, not private firms or MNCs, that differ most sharply from Chinese industry associations.

A more relevant factor is company size. The survey was intentionally limited to industry élites, and as a result it reflects the most active slice of industry. As is the case elsewhere, larger firms have more financial and human resources to devote to government affairs than do smaller firms, and perhaps more than industry associations. The sample was subdivided into two groups according to their annual sales, and the larger companies interact more frequently with the NPC, CPPCC and local governments.<sup>40</sup> The larger companies were also more active over the range of lobbying tactics.<sup>41</sup>

From the perspective of associations, one explanation for their less active posture compared to companies could lie in the ownership or size of their members or the representativeness of particular associations. Associations which have a high proportion of SOEs as members use the same tactics at essentially the same rate as associations with fewer SOEs. The only differences are that those with few SOEs have somewhat more contact with the CPPCC and are more likely to engage in philanthropy, although still less frequently than companies. Associations composed of large companies do not appear to be any more active than associations composed primarily of smaller firms. Associations which represent a larger proportion of an industry's total number of firms or total sales generally behave similarly to less-representative associations, and associations from different sectors also behave similarly to each other.

Another possible explanation could be that, compared to large companies, associations lack human resources; however, the average number of GA staff for associations is 4.5 persons, compared to 2.9 for large companies. There is, however, a difference in distribution patterns. Over 70 per cent of companies have either 2 or 3 people responsible for interacting with the government on policy issues, whereas associations vary widely in the number of GA staff. Over 41 per cent have either 1 or 2 GA staffers, but 26 per cent have 9 or more such employees.<sup>42</sup> The policy activism of both companies and associations grows as the number of GA staff increases: they meet with officials more frequently and are more likely to support scholarly research and hold policy-related meetings. Yet even companies with few GA employees are

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<sup>40</sup> The statistical significance for targets were: NPC,  $p=.019$ ; CPPCC,  $p=.053$ ; local government,  $p=.059$ .

<sup>41</sup> This finding is consistent with Zhang Jianjun and Zhang Zhixue, "Zhongguo minying qiyejiade zhengzhi zhanlue" (Chinese Private Entrepreneurs' Political Strategy), *Gongshang guanli liun luntan* (Theoretical Forum on Business Management), No. 7 (2005), p. 102.

<sup>42</sup> The standard deviation for companies (1.2) is much lower than for associations (3.2). The actual question was: "On related economic policies, how many employees in your company (association) are responsible for maintaining contact with the central government?" The varied responses may be a function of differing interpretations of the question. Some respondents appear to have interpreted the question to mean the number of employees whose primary responsibility is government affairs, whereas others also included employees for whom government affairs is only an ancillary part of their responsibilities. It is possible that associations were more likely to use the broader interpretation, but further research is needed.

still more active than well-staffed associations. Many of the latter only have contact with State Council ministries and commissions.

The most plausible explanation for the contrasting behavior is the difference in the environment in which firms and associations exist. In China, companies operate in an economically competitive climate, while most industry associations do not, and the pressure (or lack of it) to survive appears to define how companies and associations variously engage the policy process. Although China did not encourage the privatization of existing SOEs until the late 1990s, promoting greater competition has been a constant theme of the reform era. Even in industries dominated by SOEs, there is rarely one company with a monopoly; instead, at least limited competition is fostered.<sup>43</sup> When faced with competitive pressures, even state-owned companies have adapted.<sup>44</sup>

Companies of all ownership types and nationalities engage in lobbying and draw on a wide variety of tools in doing so. Despite having a close connection to the state, SOEs still court its weaker institutions (the NPC and CPPCC) and participate in associations as much as their private and MNC counterparts. Conversely, private companies and MNCs hire former officials and try to develop *guanxi* to gain leverage which SOEs are endowed with naturally. By contrast, most Chinese national industry associations lead a sheltered existence. The regulations adopted in the 1980s and 1990s limiting competition among industry associations and other social organizations are still in force.<sup>45</sup>

Second, many national associations are still largely extensions of some branch of a State Council ministry or commission. They have easier access to the sections of the government that they primarily serve. Not surprisingly, the great majority of association representatives who have government experience have come from a national government agency, whereas most company GA staffers with government experience worked in local government agencies. As creatures of government institutions facing limited competition, industry associations largely hew to traditional ways of engaging policy discussions and less frequently engage the broader public or scholarly specialists. Their privileged access may ease influence by associations, but it also makes them hesitant to challenge the state. When asked if they would try to persuade their supervisory government unit to accept their members' position when the two sides disagreed about policy, only 26 per cent said they would stand on the side of their members (47.6 per cent said they would seek a compromise). In sum, whereas market pressures have pushed companies to evolve, national associations, which have only been marginally reformed, have yet to face such pressures.

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<sup>43</sup> Barry Naughton, "China's Distinctive System: Can It Be a Model for Others?", *Journal of Contemporary China*, Vol. 19, No. 64 (forthcoming, June 2010).

<sup>44</sup> Edward Steinfeld, *Forging Reform in China: The Fate of State-Owned Industry* (Cambridge: Cambridge University Press, 1998).

<sup>45</sup> The key current regulation governing associations is the 1998 "Regulations on the Registration and Regulation of Social Organizations" (*shehui tuanti dengji guanli tiaoli*), which replaced a 1989 law of the same name. The 1998 version, issued 25 October 1998, is carried in *Fazhi ribao* (Legal Daily), 4 November 1998, p. 3.

**Table 6: Low- Versus High-Autonomy Associations (%)<sup>1</sup>**

	(A) All Companies	(B) All Assns	(C) Low- Autonomy Assns	(D) High- Autonomy Assns	(E) A-B	(F) A-C	(G) A-D
<b>Lobbying Target</b>							
Interacts with State Council ministries and commissions	96.9	98.6	100.0	90.0	-1.7	-3.1	6.9
Interacts with NPC	82.4	18.0	9.8	60.0	64.4	72.6	22.4
Interacts with CPPCC	54.9	18.0	11.5	55.6	36.9	43.4	-0.7
Interacts with local govt	96.9	70.5	71.2	66.7	26.4	25.7	30.2
<b>Lobbying Methods</b>							
Contacts the State Council to obtain policy information	93.8	71.0	70.7	72.7	22.8	23.1	21.1
Provides company/ industry information	93.8	81.4	80.0	89.0	12.4	13.8	4.8
Hosts policy-related meetings	96.1	76.6	78.2	66.7	19.5	17.9	29.4
Supports scholarly research on policy	74.8	58.6	60.4	50.0	16.2	14.4	24.8
Submits articles to media	98.5	89.7	89.5	90.9	8.8	9.0	7.6
Engages in philanthropy	83.2	23.4	20.8	42.9	59.8	62.4	40.3
Hosts banquets with officials	95.9	47.0	47.3	44.4	48.9	48.6	51.5
<b>Influence</b>							
Agrees industry influence risen in last three years	68.4	52.9	50.8	63.7	15.5	17.6	4.7
Agrees SOEs more influential than private	67.2	57.6	58.9	50.0	9.6	8.3	17.2
Agrees FIEs influential	76.3	38.3	36.5	50.0	38.0	39.8	26.3

Note:

1. For activities, figure is the cumulative percentage of respondents in each category who said they engaged in the activity at least once per year.

This point is driven home by the distinctive behavior of the minority of associations with high autonomy.<sup>46</sup> Sixty of the 73 associations in the sample are

<sup>46</sup> The survey measured four types of autonomy: who initiated the association (the government or association members), the location of the association's secretariat (within a

affiliated with a national government body, while the remaining 13 are either affiliated with the All-China Federation of Industry and Commerce (ACFIC) or the China Council for the Promotion of International Trade (CCPIT), or not affiliated at all. The 1998 regulations on social organizations stipulates that there should be only one association per industry, but the regulation does not apply to the CPPCC, a “people’s organization” and its affiliated bodies. The ACFIC is under the CPPCC, and in the last decade entrepreneurs have successfully used this loophole to register 25 national sectoral chambers of commerce (*shanghui* 商会) and over 7,800 regional chambers, even when there is an existing standard industry association.<sup>47</sup> At the national level, the chambers are typically in less prominent sectors. These high-autonomy associations and chambers do not behave like their low-autonomy counterparts; they behave more like companies, because they have to serve their members and they have no original relationship with the state. If they do not use a variety of tools, they will not survive.

Hence, high-autonomy associations have a wider range of government targets. Ninety per cent of low-autonomy associations never contact the NPC, whereas 60 per cent of high-autonomy associations do so; 88.5 per cent of low-autonomy associations have never contacted the CPPCC, whereas over half of high-autonomy associations have done so.<sup>48</sup> Said one survey respondent from an association under the ACFIC, “Every year we collect ideas, conduct research and analysis, and then put forward suggestions in the form of resolutions to the two annual meetings [of the NPC and CPPCC], and it is relatively effective”. Table 6 shows that the gap in behavior between high-autonomy associations and companies (Column G) is often lower than the gap between low-autonomy associations and companies (Column F). The main reason that the differences between the two columns are not even more stark is that there is wide variation amongst high-autonomy associations. Some are quite active and use a wide range of tactics and influence policy in their favor, whereas others have become more passive after trying and failing to influence the government, and as a result have turned their attention away from policy influence. The secretary-general of an independent association in manufacturing told the survey interviewer, “We exist in a small segment of the [...] industry. The government does not take this area seriously and has not adopted any specific policies in this area.

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government building or not), the proportion of their budget from the government, and their affiliated unit (government agency, a chamber of commerce, or no affiliation). An association’s founding initiative, office location and budget composition have no effect on their behavior. Some very independent-minded associations seek space in government buildings to be close to officials, and very few associations formally depend heavily on government for their budgets; membership dues and consulting fees are their main sources of income. Even associations affiliated with government agencies often report that the creation of the association was at the initiative of their membership.

<sup>47</sup> At one point, there were 28 such national chambers, but three have closed. Huang Mengfu, *Zhongguo shanghui fazhan nianbao*, p. 649.

<sup>48</sup> Both differences are highly statistically significant: for the NPC,  $p=0.011$ ; for the CPCCC,  $p=0.03$ .

Sometimes we tried to push the government to issue supportive policies, but the government absolutely did not care about us. So our association mainly emphasizes self-discipline and provides information and service; it rarely contacts the government".<sup>49</sup> Those areas in which high-autonomy associations are not more active than low-autonomy associations (hosting policy-related meetings, supporting scholarly research and hosting banquets) are most challenging because they require substantial financial resources. Low-autonomy associations do not face the challenges of high-autonomy associations, not because their proposals are more regularly accepted, but because they continue to have institutionalized ties and access to at least their government affiliate, regardless of their worthiness.<sup>50</sup>

### **Weak Companies and Powerful Associations?**

One puzzle remains: companies report that individually they are not influential, while the relatively less assertive associations report that they regularly influence government policy. If we take the respondents at their word, this means that companies' GA staff are getting very little return for their policy involvement, or that they are engaging in poor strategies which their association counterparts avoid. If the industry élite are not influential, it would indicate that smaller companies would have essentially no chance whatsoever of influencing public policy.

There are several reasons why this conclusion may have merit. The first is intuitive: a company only represents itself, whereas an association represents an entire industry. An entire industry carries more economic clout and its broader representation possibly imbues their advocates with more credibility and authority in the minds of officials. In addition, many public policy issues affect an entire sector, and it makes sense that associations would be the most effective voice for industry.<sup>51</sup> Second, since many national industry associations are still closely connected to government, they have natural access to officials. This is why 90 per cent of associations provide policy information orally to officials, whereas only a quarter of company respondents do so. That intimacy may make a huge difference. Third, associations which affect policy have more GA staff; 67.7 per cent of those with three or more such employees said that they had influenced government policies, whereas only 36.7 per cent of those with two or fewer GA staffers said that they had been influential ( $p=0.035$ ). Fourth, the associations report that the great majority of their GA staff with government experience were from the national government, whereas the reverse is the case with the company respondents. Through their hiring practices,

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<sup>49</sup> The relevant industry has been redacted to protect the confidentiality of the respondent.

<sup>50</sup> For an excellent article that supports our argument, see Hu Libo and Song Yang, "Hangye xiehuide Zhongguo zhi lu" (China Road for Industry Associations), *Gongyi shibao* (Philanthropy Times), 29 January 2008.

<sup>51</sup> In a separate survey, the GA staff for MNCs report that government-affairs officials are in general skeptical of the viewpoints of individual companies and uncomfortable with direct company lobbying, especially by MNCs. US-China Business Council, "Conducting Governments in China: Best Practices", p. 2.

companies reveal that they have greater concern with policy implementation than with policy adoption. Fifth, just over 50 per cent of company respondents in the survey said that they joined associations to receive these organizations' help with policy influence, and an identical number thought that associations play an important policy role.

Yet, as commonsensical as the above analysis is, the opposite may also be true. Perhaps the respondents were purposely disingenuous when describing their influence. Clues from the survey data of companies and associations and from other sources suggest that companies under-report their influence while associations over-report theirs. Companies have a large disincentive to admit to being politically influential. The Chinese government does not want to be seen as being subject to lobbying, since it may imply a vulnerability to pressure, the adoption of policy based on particularistic interests, or even impropriety. Companies are fully aware of this sentiment and know that the government could penalize any who grandstand. Representatives from three companies which were not part of the original survey but were interviewed subsequently revealed that, although they have successfully shaped policy outcomes, they would never admit in a formal survey to having such influence. One said, "A company would have to be stupid to admit influence in a survey"; another explained, "It would be unwise and potentially too risky to claim openly that you are lobbying effectively, because you could be singled out by the government as a troublemaker and as a threat".<sup>52</sup>

In addition to wanting either to hide or to exaggerate their influence, it appears that the wording of the question—"Has your company (association) successfully influenced a central or local government policy?"—sets a very high standard for measuring influence. When worded in a less direct manner, a more realistic picture of company influence emerges. On the less sensitive questions regarding the influence of industry generally, a large majority of companies agree that companies, whether large, state-owned or foreign, wield substantial policy influence. In a recent separate formal survey where private entrepreneurs were asked if they were satisfied with their efforts to contact government officials about an issue or engage in lobbying, over 74 per cent responded in the affirmative.<sup>53</sup> This impression was confirmed in an informal poll of 100 MNCs executives taken in August 2009. When asked questions identical to those on our survey, 32 per cent said that they had influenced a government policy, but fully 60 per cent said that they knew of another company which had influenced government policy and 58 per cent said that central government policies are sometimes more consistent with the interests of their company and sector because of their interaction with central government officials.<sup>54</sup> This suggests the need to ask nuanced questions that measure influence in multiple ways.

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<sup>52</sup> Interviews, Beijing, October and November, 2008.

<sup>53</sup> Jie Chen and Bruce J. Dickson, *Allies of the State: China's Private Entrepreneurs and Democratic Change* (forthcoming, Harvard University Press).

<sup>54</sup> The informal poll occurred during a meeting organized by an overseas chamber of commerce with offices in Beijing. The results are highly suggestive, but because the

A strong sense of company influence on policy comes through more clearly during in-depth interviews, where companies have revealed how they regularly shape economic policies, broad and narrow, at both the national and local level.<sup>55</sup> Given the sensitivity of the issues, it is possible that, even with the promise of confidentiality, respondents feel less comfortable in formal surveys where the questioner is a stranger than in interviews where they have a better chance to develop rapport with their interlocutor.<sup>56</sup>

Whereas companies have an incentive to minimize their role, associations have good reason to exaggerate their own.<sup>57</sup> One of their recognized tasks is to participate in policy discussions. They need to justify their existence to their members, so admitting to being irrelevant in policy debates would be detrimental to their interests. In this survey, associations report that they have good *guanxi* with officials, but only one-third of them acknowledge that the government takes the associations seriously (*hen zhongshi* 很重视). Tellingly, only 7 per cent of surveyed associations have been invited to testify in government-hosted public hearings, compared to 85 per cent of polled companies. If the government so valued associations, one would expect their opinions would be more regularly sought. In addition, as reported above, few associations prefer to confront the government when there is a disagreement between their members and officials. This may be why companies do not depend heavily on associations for government affairs work. Although many join hoping associations will influence government policies in their favor, only 31 per cent regularly use associations to contact the central government about policy matters. An overwhelming proportion of companies (93.8 per cent) join associations to help their public image and only 16 per cent of company respondents said that their policy influence would deteriorate if existing associations disappeared. It is certainly

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respondents were not separated from each other and more than one person from a company may have responded, caution in reaching a firm conclusion is warranted.

<sup>55</sup> Scott Kennedy, *The Business of Lobbying in China*. A recent book by a PRC scholar provides numerous examples of successful company influence on national and local public policies, and reports that large companies are more influential in China than small companies. Tian Zhilong and Gao Haitao, *Goutong chuangzao jiazhi: qiye zhengfu gongguande celie yu anli* (Communication Creates Value: Tactics and Cases of Government Public Relations by Enterprises) (Beijing: Qinghua University Press, 2007).

<sup>56</sup> For a similar point, see Mayfair Yang, "The Resilience of *Guanxi* and its New Deployments: A Critique of Some New *Guanxi* Scholarship", *The China Quarterly*, No. 170 (June 2002), pp. 459-76.

<sup>57</sup> The figures reported here about association influence are much higher than reported elsewhere. In a survey of provincial-level social organizations, in which industry associations composed the largest group, almost 20 per cent of respondents said that they had influenced the national or local government to adopt a policy, and 6 per cent said that they had persuaded government to revise or abandon a policy. Jingpeng Li and Ruijun Yuan, "The Development of Civil Society in Transitional China: An Analysis from the Perspective of Local Social Organizations", presented at the International Conference on Civil Society Development in Transitional China, Peking University Center for Civil Society Studies, Beijing, October 2005.

possible that industry associations are more consistently influential than large companies, but the gap is likely to be much less than at first appears.

### Conclusions

As long as China is authoritarian, there will be interest in measuring industry's autonomy from the state. Such studies, however, limit our ability to appreciate fully the extent of corporate political activity in China. When the lens is expanded to include a wider swath of industry and the focus is turned to the lobbying activities of companies as organizations, one gains a new perspective on business's expanding role in the policy process. In contrast to most earlier studies, this article concludes that companies across ownership forms and nationality lobby the national government on public policies in a similar fashion. At the same time, the lobbying style of companies differs substantially from that of associations because of the contrasting environments in which they operate—a competitive world for companies and a protected bubble for most associations. Although the picture regarding industry influence is not as clear, it appears that lobbying is effective and that large companies and associations have a substantial effect on Chinese public policy.

Others have found that utilizing *guanxi* is the key to influence in China and, as a result, they assert that the relationship between government and business in China is distinctive. Although *guanxi* is widely recognized as important by companies and associations alike, our findings indicate that the behavior of industry reveals that they do not depend primarily on *guanxi* to achieve their aims. Instead, companies and associations build their cases through, among other things, providing information and strengthening their public standing. Hiring former officials is common among companies and associations, but such staffers are more valued for their knowledge of the inner workings of the political system than their relationships with specific individuals in office.<sup>58</sup> Thus, to some degree, lobbying in China is becoming more institutionalized. We do not argue that the shape of government–business relations in China is converging with that in the United States, Western Europe or elsewhere: the lack of competitive national elections, the prominence of the executive branch and constraints on associations and transparency shape how lobbying occurs in China. However, the black-and-white contrasts between China and elsewhere are less helpful than often thought.<sup>59</sup>

Our conclusions are based on a sample of extremely large companies across a range of ownership forms and nationalities. They were chosen because they are the most likely to have policy influence. Not only are they probably much more active than smaller firms but their size and abilities may also enable them to influence policy-makers by means other than *guanxi*. In contrast to local issues, national policy decisions

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<sup>58</sup> Interviews, Beijing, October and November, 2008.

<sup>59</sup> For an initial comparative effort, see Scott Kennedy, “Fragmented Influence: Lobbying in China in Comparative Perspective”, in Scott Kennedy (ed.), *Beyond the Middle Kingdom: Comparative Perspectives on China's Capitalist Transformation* (manuscript, currently under review at Stanford University Press).

typically involve multiple actors over an extended period, reducing the salience of any individual personal relationship and raising the relevance of other sources of influence.<sup>60</sup>

The story regarding associations, by contrast, sounds all too familiar. Since at least the late 1990s, the central government has debated whether to open up national associations to genuine competition; to date, conservative concerns about uncontrollable social forces have forestalled sweeping reform. Pronouncements that encourage national-level reform consistently stop short of challenging the monopoly status of associations and their links to government authorities.<sup>61</sup> At the same time, change among associations is quietly expanding locally, and associations and chambers with no direct government affiliation have been created. As with economic reform, a competitive environment appears to be just as important to how industry behaves in the policy process as are changes in ownership.

Although these findings are robust, more research—with a broader range of firms and associations and more nuanced measures of influence—is still needed. The sample of companies needs to be expanded to include firms of varying sizes from different sectors across regions and associations and chambers of commerce from different regions, as well as foreign-based organizations which operate in China. There needs to be greater probing of material incentives, legal and illegal, which seem to be pervasive yet difficult to pinpoint. We need to explore more fully influence beyond the shaping of regulations and their implementation to include the normative and ideational power of business, and China needs to be examined more systematically in comparative perspective. Only then will we have a full picture of business lobbying in China and the paradox of contrasting lobbying styles and influence between companies and industry associations.

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<sup>60</sup> For other studies that indicate the declining importance of *guanxi*, see US-China Business Council, “Conducting Government Affairs in China: USCBC Survey Results”, p. 9; and Elizabeth Judd, *Good Guanxi*, p. 7.

<sup>61</sup> For a recent policy statement, see “Guowuyuan bangongting guanyu jiakuai tuijin hangye xiehui shanghui gaige he fazhande ruogan yijian” (State Council Office Ideas on Speeding up and Pushing Forward Reform and Development of Industry Associations and Chambers), State Council, No. 36, 13 May 2007, available online at <http://politics.people.com.cn/GB/1026/5825218.html>, last accessed 15 December 2009. National associations are still required to have a supervisory government unit, and although government officials are not supposed to serve as association leaders, associations can apply to be exempt from this rule.