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Barbarians lobbying at the gate By Scott Kennedy Published: September 28 2005 03:00 | Last updated: September 28 2005 03:00

Over the past year, the chorus of concern over Chinese protectionism has grown increasingly loud. Robert Zoellick, US deputy secretary of state, is the latest to raise his voice, warning last week that Beijing could no longer adopt mercantilist trade policies without incurring retaliation from its trading partners.

An assumption behind Mr Zoellick's threat is the notion that Chinese companies and government agencies uniformly favour protectionism and that western businesses are dependent on intervention by their own governments to thwart such efforts.

The fact is, however, that a growing segment of Chinese industry prefers open markets; and foreign investors have become direct participants in seeking to influence China's national economic policies.

The result is pro-liberal coalitions of Chinese and foreign companies, which regularly beat back protectionist Chinese policies without officials such as Mr Zoellick having to chime in.

As China has moved from a planned economy to a market one, the government has adopted hundreds of thousands of regulations on every aspect of a company's business life cycle, from registering and raising capital, to distributing profits and paying taxes.

Chinese companies no longer passively wait for laws to be issued before deciding whether to obey or violate them. Interviews with hundreds of Chinese and foreign executives and officials instead reveal that lobbying the national government has become as common as water flowing down the Yangtze in the summer.

There are about 350 Chinese national industry associations but because many suffer from official manipulation, companies primarily lobby their regulators directly. National policies on taxes, trade, standards, intellectual property, the environment, finance and pricing all bear the fingerprints of Chinese companies lobbying for change.

Foreign companies have also become politically active in China. Large multinationals are in constant communication with multiple national agencies. Beijing and Shanghai are home to hundreds of foreign-based chambers of commerce and trade associations. Foreign public affairs and public relations groups, such as APCO and Ogilvy, are also busy in China.

To increase the effectiveness of their campaigns, foreign companies often hire former Chinese government and Communist party officials to help lobby their former colleagues. With government downsizing, the revolving door has been spinning at light speed.

Lobbying on national policy issues is not as vulnerable to corruption and influence-peddling as ties between local government and business. Bribes and friends can help a company get a permit or licence, but national policies pass through more gates and are more technically complicated, pushing businesses to make a case more on its merits than on who they know.

Not only are Chinese and foreign companies both pressing Beijing on policy after policy, they often find themselves on the same side on specific issues. Why? The answer is simple: globalisation. Since reforms began in 1979, foreign companies have invested \$600bn in China, \$38bn alone in the first eight months of this year. There are more than 250,000 foreign companies operating in China, often in joint ventures. Global businesses and their Chinese counterparts have become intertwined in tightly integrated networks as financiers, suppliers, producers and distributors.

When foreign companies are hurt by protectionism, so too are their Chinese partners. As a result, the phrase, "use foreign barbarians to counter [other] foreign barbarians", made famous during the Qing dynasty, has been turned on its head. Now the barbarians are using their ties with their Chinese allies to halt such policies.

Take fair trade policy, for example. China is the most common target of anti-dumping investigations, but China has also become the third most active initiator of cases against foreign companies, for supposedly dumping their goods in China. However, foreign groups have walked away with partial or complete victories in more than 45 per cent of the cases adjudicated by China's ministry of commerce because their Chinese customers regularly speak up on their behalf.

Typical was a stainless steel case involving South Korean and Japanese companies. Some of China's largest home appliance and carmakers successfully lobbied against fully instituting punitive tariffs sought by domestic steel producers, arguing that they required the higher quality foreign steel to remain competitive.

Foreigners have also been in a frenzy over Chinese efforts to set unique technical standards in information technology.

The government has vigorously promoted a third-generation cellular phone standard (TD-SCDMA), but foreign companies and Chinese enterprises that see greater promise in foreign options (CDMA2000 and WCDMA) have persuaded Beijing to allow those technologies to compete in China once Beijing issues operating licences. Standards-making bodies in China increasingly have foreign participants, meaning that when Chinese groups eventually do succeed in setting standards, foreign companies will benefit as well.

Foreign observers may also be overly concerned about discriminatory policies related to government procurement. A six-year campaign to push government agencies to purchase domestic software whenever feasible has made little headway. Microsoft and other global software giants have vigorously lobbied against such measures and they have been joined by various local governments and domestic software companies that make applications based on Windows platforms. Last year the Beijing municipal government cancelled a planned purchase of Microsoft software and bought domestic alternatives. But then, early this year, it bought the Microsoft software it needed.

Although the Chinese regime is still authoritarian and supports domestic industry, the business of lobbying is alive and well, to the benefit of Chinese and foreigners alike. Let us hope that the liberal lobby is as strong in the US and Europe as it is in China.

The writer is an assistant professor of Chinese politics at Indiana University, and author of *The Business of Lobbying in China*, Harvard University Press

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