Comparing Formal and Informal Lobbying Practices in China

The Capital’s Ambivalent Embrace of Capitalists

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Abstract  The marketization of China’s economy and the attendant need for a supporting regulatory framework have resulted in extensive lobbying by Chinese and foreign industry. The central party-state has adopted an ambivalent posture toward this development. On the one hand, the government has encouraged the development of industry associations, public hearings, and comment-and-response periods for draft laws and regulations to routinize public policy consultations. On the other hand, the central party-state is deeply concerned about the political consequences of permitting greater social activism, and hence, it continues to constrain the maturation of these same formal institutions and processes. As a consequence, informal lobbying practices, such as direct lobbying and manipulation of the media, have become more prominent vehicles for industry involvement in the policy process.

Keywords  policymaking, business lobbying, state–society relations, public hearings, industry associations, trade policy

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The conventional view of China’s economic policy process is increasingly divorced from reality. The vast majority of scholarship focuses on the state: the top elites, the Chinese Communist Party (CCP), and the government bureaucracy. More recent attention has been paid to the emerging role of the National People’s Congress (NPC) and policy experts in academia and research institutes, yet the central premise of an autonomous state protected from, and immune to, direct societal input on policy has largely been left intact. Conversely, it is often said that Chinese businesspeople do not care about politics, that they only care about making money. Hence, they are
uninterested in policymaking, let alone in whether China democratizes. If government regulation gets in their way or they want special treatment, they either ignore the law altogether or exploit personal relationships with friendly officials to solve the problem.³

The focus on state actors and institutions is not as much inaccurate as it is incomplete. Since the mid-1990s, China’s national economic policies have become subject to influence by nonstate interests, particularly in business. Industry interacts with Chinese officialdom on a daily basis at the local and national levels to shape policies to suit their preferences. Such behavior is not just true of state-owned enterprises (SOEs), but also applies to domestic private companies and foreign multinational corporations (MNCs) with investment and trade interests in the People’s Republic.⁴ There are also signs that nonbusiness societal actors are learning to directly influence policy decision making.⁵

The limited attention to industry’s involvement in the policy process is partly the result of the state’s ambivalent posture toward business. On the one hand, the CCP has invited private entrepreneurs to join its ranks, and the central and local governments have promoted business associations and other formal avenues to facilitate consultation with industry, professional groups, and others in order to create more effective economic policies.⁶ Recently there has emerged public recognition that business is increasingly attentive to the policy process. Conservative publications criticize officials for being captured by industry, but most discuss “interest groups” (利益集团) and “lobbying” (游说) as natural features of a market economy.⁷ Whereas such terms used to be applied only to government–business relations in the United States and Europe, they are now routinely used to describe domestic Chinese industry’s political activities.⁸

On the other hand, the state is still wary of independent political activity, even by businesspeople. The state wants to appear as consultative but not pluralistic. Hence, in any individual case it never openly admits to being influenced. One would hardly be aware of lobbying reading People’s Daily (人民日报), the CCP’s official mouthpiece, or Xinhua, the government’s official news service. The same concerns have led to hesitancy in liberalizing business associations. Most scholars have found that as a result of government intervention, associations tend to be weak—a finding which reinforces the impression of a politically passive business community.⁹

The purpose of this article is to demonstrate that the state’s ambivalence toward capitalists has not eliminated business lobbying but rather has shaped how it has evolved, both through intentional policies by officialdom and unintended responses by industry. Hence, to fully appreciate the scope
and significance of lobbying, we must consider both formal institutions and informal practices. In the next section, the article explains the emergence of lobbying—why companies are interested in shaping policy and why government is willing to listen. The discussion then turns to a comparison of the main avenues for government–business interaction. Though China’s association system has gradually become more liberal, firms primarily engage in direct lobbying. Similarly, the state has formally encouraged public hearings, but industry expends more effort on informal paths to air their views, for example by gaining favorable media coverage of them and their industries. The article concludes by situating the state’s ambivalence about lobbying in the context of concerns about accountability mechanisms in general, and by considering the implications of this Janus-faced posture toward the state’s ability to effectively regulate the economy.

Data for this article comes from Chinese media and scholarly reports as well as from in-depth interviews conducted over the course of a decade, between 1998 and 2008, with Chinese and foreign government officials, association representatives, company executives, and industry analysts. The vast majority of interviews were arranged by this researcher without any knowledge or input from Chinese officials responsible for managing foreigners’ contacts in China (外事办). Interviews typically lasted 1–2 hours, many sources have been interviewed multiple times, and multiple sources have been interviewed in order to weigh conflicting evidence about any single issue. In order to protect the anonymity of sources, they are cited in the notes only as “Interviews.”

**Gaining a seat at the table**

To discuss how industry lobbies, one must first understand why it would be interested in influencing policy and why the state would want its input. A key element of shifting from a planned to market economy during the past 30 years has been the decrease of the government’s direct involvement in the micromanagement of enterprises. For SOEs, this has involved obtaining greater autonomy over their internal affairs. Although the government still appoints senior SOE executives, most have risen to the top internally through their companies’ own ranks. SOEs’ sense of identity has been reinforced by the formal separation since the 1980s of their finances from that of the government’s. Another crucial aspect of the reform package has been the entry of new firms—domestic and foreign—into the market.
The withering of planning and micromanagement has not meant that the government has been satisfied with passively standing on the sidelines as the market has operated. On the contrary, the Chinese economy is heavily regulated. As of early 2008, the NPC and its Standing Committee had passed 229 laws which were in force at the time. The State Council had passed over 600 administrative regulations, and local governments had adopted over 7,600 regulations. Over the first six years of China’s membership in the World Trade Organization, the national and local governments revised 887 regulations related to foreign economic matters.\(^{11}\) This mountain of regulations has created strong incentives for firms and those that might act on their behalf to pay attention to and try to influence the formulation of public policy. The novel importance of public policy has introduced new sources of potential cooperation and tension between government and industry. The bureaucracy may have policy positions that are in concert with the interests of business, but the two may disagree, or government may not even recognize an issue that is important to industry.

Just as industry’s efforts at influence have expanded, government’s willingness to listen to—and accept—industry’s suggestions has likewise grown. Although corruption is rampant in China, bribery and use of personnel connections do not appear to be the central factor motivating government. A skeptic could point out that since China is not a democracy and its leaders not accountable through elections, offering material incentives appears to be the only motivation for officials to follow the demands of business or other interest groups, regardless of the issue. Such a view, though, overly highlights the “electoral connection” that empowers lobbyists in democracies and overlooks other reasons why the Chinese government has become more susceptible to industry lobbying beyond patronage.\(^{12}\) As a pro-development regime, the Chinese state is ideologically oriented toward business. The two are in some sense partners seeking to use the other to achieve their own goals. While the government is in a position to influence business, firms have gained policy leverage because they are central to accomplishing government objectives such as a growing economy, stable prices, high employment, and expanding tax receipts. Without industry’s cooperation, these and other goals cannot be achieved for individual bureaucrats, agencies, or for the government as a whole. Relatedly, because of their involvement in the economy, businesses are a critical source of knowledge on issues that affect their success. Such information may be neutral in tone, for example, market trends and production techniques. But just as often businesses may seek to “educate” officials to view problems from their perspective, all the while showing how their preferred outcome can also benefit the government and the country as a whole.
In sum, its central place in achieving government objectives and its authoritative knowledge give industry, Chinese and foreign, a “privileged position” at the policy table. But at the same time, the state’s concerns about losing political control have shaped how it has accommodated industry’s involvement into the policy process.

**Business associations**

Although China had “industry guilds” as early as the late Qing dynasty, China’s existing associations are largely creatures of the Reform era. Succinctly describing the current system is difficult because of internal variation and the gap between formal structures and actual practice. Some have used the label “state corporatist,” which denotes that associations have mandatory membership policies, lack autonomy from the state, are hierarchically arranged, and have jurisdictional monopolies over representing their respective industries. Consistent with this picture, Chinese law requires associations to register and be supervised by a sponsoring government agency, allows officials to take on leadership roles in associations, and stipulates that different associations’ areas of focus (product or issue) should not overlap. The reality, however, is much more complicated.

Associations in China can be divided between chambers of commerce, in which the members originally shared a common ownership form (private, state-owned, or foreign), and industry-specific associations. In the former category are the Self-Employed Laborers Association, the All-China Federation of Industry and Commerce, the China Enterprise Confederation-China Enterprise Directors Association, and the China Association of Enterprises with Foreign Investment. This group also includes nationality-based chambers of commerce, such as the American Chamber of Commerce, which represent foreign-invested enterprises operating in China. In the other category are industry associations whose ranks have swelled rapidly. At the end of 2006, there were 662 national industry associations and almost 60,000 in localities around the country. Some represent industries writ large (such as consumer electronics or securities), while others focus on a more narrow product category (stainless steel). Besides domestically created industry associations, there are also a growing number of foreign industry associations with offices in China, representing a wide variety of sectors, from soybeans to software. Foreign industry associations are technically illegal, but the government agencies with whom they interface typically welcome their presence because they offer a channel to interact with business in an organized fashion.
Most industry associations in China are not fully independent. Many have been initiated by government authorities, not their members. Their sponsoring government organization usually has a voice in how the association is operated, most importantly in who occupies the association’s leadership positions. The staff of associations often includes current or retired officials. And finally, some associations depend on government outlays to cover part of their expenses. There is some variation in associational autonomy, but it is uncommon to find a fully independent Chinese industry association.17

The most influential chamber of commerce in China is the All-China Federation of Industry and Commerce, which primarily represents large privately run companies.18 As of the end of 2007, the federation had almost 2.2 million corporate and individual members and 3,130 branches at and above the county level around the country.19 However, the federation, particularly at the national level, is far from independent. Its leaders are formally elected, but the CCP’s United Front Department has some say over who is nominated and holds office. Despite these constraints, the federation does push for the interests of private business. It annually submits dozens of proposals to different parts of the national and local bureaucracy and people’s congresses. For example, it advocated amending the constitution to add an article expressly protecting private property, which was adopted in 2004. And more recently, it was involved in pushing through a full-fledged Property Rights Law, passed at the March 2007 meeting of the NPC.

Although industry associations are often not fully autonomous, that does not mean they are useless to their members. Because of China’s political environment, it is usually necessary for associations to sacrifice some of their autonomy in order to gain access to officialdom and serve their members. When this researcher asked one software executive whether he would be interested in founding his own fully independent association, he answered that he feared it would be treated like Falun Gong and other groups that supposedly threaten the state. Other association leaders report that since the Chinese government has so much authority, it is important to maintain close relations with officials, even placing them on one’s staff.20

While the limits on autonomy are akin to state corporatism, the association system’s overall structure is more ambiguous. Associations in China officially are not supposed to overlap in function with each other, but they often do in practice. They disguise this by adopting slightly different names. The China Audio Industry Association and the China Electronics Chamber of Commerce share many of the same members, and they pay attention to similar policy issues. In addition, the All-China Federation of Industry and Commerce, which is not formally covered by the 1998 “Social Organizations” regulation because
it is a “people’s organization” under the Chinese People’s Political Consultative Conference, as of 2006 served as the sponsor for 7,854 new industry associations. These include 25 at the national level, 342 at the provincial level, 1,813 at the municipal level, 4,126 at the county level, and 1,465 at the township level (and 83 others).\textsuperscript{21} Many of these associations, often called guilds or chambers of commerce, directly compete for membership and policy influence with the more standard preexisting industry associations. In addition, aside from the national chambers of commerce having some influence over their local branches, there are few hierarchies among associations. The All-China Federation of Industry and Commerce and other chambers of commerce have no influence over industry associations, and national industry associations typically do not control the actions of provincial or municipal associations, which are governed by their local governments. China’s association system has a flat structure.

Although Chinese associations are less autonomous and influential than their counterparts in the United States and elsewhere, there is wide variation in quality across sectors and regions. Economic factors that provide incentives to engage in collective action deserve much of the credit. For example, China’s steel industry is led by a core group of large state-owned enterprises. These companies employ hundreds of thousands of workers, contribute a large portion of the tax revenue of their towns, and undergird many downstream industries. Also, considering the fact that SOEs are tethered to the state, it is understandable why China’s steel industry has had very weak industry associations. The China Iron and Steel Industry Association was only created in 1999, not at the behest of its members, but as a consequence of the planned elimination of the government’s metallurgy bureaucracy. The association’s offices are in the old ministry compound, and most of the association’s leaders are former ministry officials. The association has become more active of late, getting involved in helping its largest members coordinate prices, pressing the Ministry of Commerce to defend Chinese steel companies more aggressively against unfair foreign competition and to become involved in China’s negotiations over iron ore imports. However, it is still a weak player in the larger context of policymaking in the steel industry.\textsuperscript{22}

The contrast with the software industry is not absolute, but it is stark. The software industry’s smaller, private firms individually have small political voices, and they have a habit of cooperating on technical and commercial issues. These economic characteristics translate into a more vibrant association system than in steel. China’s software industry has more associations, many of which were initiated by their members and have played a significant role in policy advocacy for companies. The China Software Industry Association has a strong official
color, but there are a dozen firm-initiated associations that focus on certain aspects of the industry, from business management software to protection of intellectual property rights and freeware. Some of the regional software associations also have more member support than the national association. Although technically focused on a specific aspect of software or a region of the country, these associations actually take on national issues that are also on the agenda of the China Software Industry Association, making the associations competitors with each other in some instances. Software executives, particularly in SOEs, were far from unanimous in the praise of industry bodies, but they as a group had more positive comments than steel company leaders.23

Differences in economic conditions also explain regional patterns. The city of Wenzhou, in Zhejiang Province, has the most well-developed associations of any locality in the country. This is in part because of the local government’s encouragement of the associations, but it is also due to the fact that Wenzhou’s economy is composed almost entirely of small and medium-sized private firms. They initiated most of their own associations, which are deeply involved in interfacing with the government and providing services to their members. They set industry standards, monitor price and market trends, and lobby the local government and Beijing. One of the most famous is the Lighter Association. Most of the world’s cigarette lighters are produced in Wenzhou. The European Union, goaded by its own lighter producers, recently accused Wenzhou firms of dumping their lighters on the European market, and they attempted to pass a law requiring lighters selling for less than €2 to be fitted with special safety devices. In reaction to these protectionist efforts, the Lighter Association aggressively organized its members, persuaded the Ministry of Commerce to defend the Chinese producers in Europe, and hired first-rate international trade lawyers to represent them. Due to their efforts and those of their European customers, the dumping charges were defeated and the lighter safety law was suspended.24 By contrast, Shanghai has had a more difficult time promoting activist associations. This is largely because the city’s economy has been dominated by SOEs less interested in associations. As the city’s economy has diversified to include a greater proportion of private industry, local associations have become more active.

In last five years there has been a proliferation of so-called “extraregional chambers of commerce” (异地商会), which represent one locality’s firms that have established operations in another province or city. The national integration of China’s economy has led to transregional investments and trade. Not only are migrant laborers moving, but companies are establishing subsidiary offices around the country. These new associations, which appear to be solely from the
initiative of their members, provide assistance to companies hoping to gain new business or encountering local protectionist obstacles in the host region. The great majority of such groups are from Zhejiang and Fujian, coastal provinces with a large proportion of private businesses that have a long history of engaging in commerce around the country. Extraregional chambers have had some difficulty registering in their host locations because Chinese law does not specifically address the issue of an association of companies from one region operating in another. Regardless, most reportedly still operate with at least the acquiescence of the host government, and some host governments court these associations in search of investors to help build their economies.

Despite the development of more substantial associations in certain industries and regions, in general China’s associations have yet to become dominant forces in industry’s self-regulation or in their interaction with the state. Even in the software sector, companies point to weaknesses that their associations share with those in other sectors. And in Wenzhou, a recent survey showed that only a small minority of officials see associations as “objects that are genuinely taken seriously” (真正重视的对象). The limits on autonomy and the unwillingness of government to fully shed many of its regulatory responsibilities deprive associations of the full space they need to in which to thrive. As a result, companies do not heavily rely on associations when matters of public policy are at stake.

Soon after the 1998 regulations were issued, plans for revisions were already underway. The “Industry Associations and Chambers of Commerce Law” has been through several drafts, but the key authors, the Ministry of Civil Affairs and the National Development and Reform Commission, as well as the CCP, are hesitant to grant full autonomy to associations for fear that they will aggressively and publicly oppose the government on a variety of issues, which could then act as examples for other groups to follow. In the interim, some coastal localities have been allowed to experiment with extremely liberal reform measures, including eliminating the need for a sponsoring government agency, not permitting government officials to serve in any posts, and allowing competition between associations in the same industry and region. But to this point, these reforms have just begun in a few regions and have not fundamentally altered the tenor of government–business relations at the national level.

**Direct lobbying**

Observers who find associations relatively lifeless often conclude that industry, ipso facto, lacks policy influence. Although official limits on associations
hamstring business, this has not stopped their efforts. Instead, as one Shanghai official relayed to me, associations in China can be described as “pedestrian overpasses” (天桥); although they are created for people to safely cross dangerous streets from above, many pedestrians, because they are in a hurry, choose to directly cross at ground level. \(^\text{30}\) Companies in China may use associations, but they primarily lobby the government directly, on their own and in informal coalitions. \(^\text{31}\)

While this may be expected, there are several aspects of direct lobbying that likely challenge conventional conceptions of government–business ties: (1) large companies of all ownership forms lobby; (2) companies have developed their own government affairs capacity; (3) companies increasingly lobby the NPC but not the CCP; (4) the importance of personal connections (guanxi) is overrated; and (5) policy coalitions among companies vary by industry and issue. These points are now taken up in turn.

First, size is the key distinguishing feature between those that do and do not lobby. Smaller enterprises of all ownership forms lack the capacity to mount anything more than an occasional effort. While one would expect SOEs to dominate such contact because of their inherent ties to the state, large domestic private firms and foreign multinationals can also have extensive lobbying strategies. UFIDA, a large private financial software maker, is extremely active on public policy issues. Any large multinational that you can name—Microsoft, FedEx, IBM, Panasonic—interacts with the national government and local authorities on a regular basis.

Second, responsibility for interfacing with the government has commonly rested on the shoulders of the company’s principal owner or CEO, but over the last decade companies have developed a specialized government-affairs staff. This practice was introduced by multinationals, but Chinese companies have begun to follow suit. Not surprisingly, many (though far from all) of these employees are former government and CCP officials themselves. They may be hired to lobby their former colleagues but they are just as likely to be valued for their in-depth knowledge of how to navigate China’s bureaucratic maze and interact with officials. \(^\text{32}\) One of the first Chinese companies to move in this direction was the Stone Group, which in 1992 hired someone who had worked in the Beijing municipal and national Party bureaucracy since 1975. \(^\text{33}\) More unexpected is the finding that a significant percentage of companies’ government affairs personnel is female. In multiple interviews in 2005 and 2006, the majority of such staffers this interviewer encountered were women. Some were junior staffers working under men, but just as
many were the chief lobbyists for their companies. In the past, that may have suggested they were supposed to use their feminine charm to sway officials, but that does not appear to be the case these days. Interview sources agreed about the widespread presence of women in these roles but disagreed on the reasons. Some believe that women may be less threatening to senior officials, most of whom are men, and hence, are more willing to listen to counter arguments from and share detailed policy information with female lobbyists. A senior executive of one multinational who believed this was true intentionally hired female government affairs staffers. Another suggested that perhaps women were better orators and used more convincing language than men when interacting with officials. Other sources, though, strongly disagreed, asserting that lobbying skills are gender neutral.

Lobbying the central government is not reserved for Beijing-based companies. Just as multinationals typically have representative offices in Beijing primarily for the purpose of interacting with officialdom, such is also the case for large Chinese state-owned and private companies headquartered around the country. Those who cannot afford Beijing’s steep rents will send company executives on regular pilgrimages, often calling on the aid of their region’s government representative office in the capital. Fifty-two regions officially have offices in Beijing, while the actual figure is likely to be well over 100.

Some companies, whether or not they have their own internal lobbying capacity, call on the services of specialized firms. The number of public relations, consulting, and law firms which have developed a distinct service in public affairs continues to grow. Many of these companies, such as APCO Worldwide, cater to multinationals, but Chinese businesses use these agencies as well. And they, too, regularly put former officials on their payroll.

Third, the targets of business lobbying are evolving. Companies mainly interface with officials in the ministries and commissions under the State Council. Any one company will interface with any part of the bureaucracy that has some responsibility over issues that affect its business. The software maker UFIDA does not just lobby the Ministry of Industry and Information Technology; it also cares about issues regulated by the ministries of finance, culture, and commerce, to name just a few. The State Council itself is also a primary target for companies, both because it adjudicates disputes between different ministries and also because it drafts regulations through its Legislative Affairs Office.

That said, recently companies have paid more attention to the NPC. This historically rubberstamp organization has gradually increased its role in drafting and revising national laws, with a growing percentage of laws initiated by the
NPC itself. In addition, more NPC deputies than ever are from state-owned and private enterprises. They have an inherent concern for the laws over which they deliberate, and they are likely to lend a sympathetic ear to the business leaders who visit Beijing during the annual plenums expressly to meet with deputies. Industry has had a significant effect on a large number of national laws. Chinese and foreign software, movie and music producers all gave input during the drafting of the country’s copyright and patent laws. Multinationals such as Amway and Avon aggressively lobbied the State Administration of Industry and Commerce, the Ministry of Foreign Trade Commerce, and the NPC during drafting of the Direct Sales Regulations. In 2005, 601 NPC deputies put forward resolutions calling for specific revisions to the new draft of the Company Law, in part to make it easier for those with less capital and few assets to form limited liability companies. Many of these deputies were entrepreneurs themselves, and even non-NPC businesspeople hosted discussion meetings and made public statements supporting certain revisions. Private entrepreneurs were reportedly even more involved in debates over the text of the recently passed Property Rights Law.

The stress here on firms’ interaction with government—as opposed to the CCP—on policy matters is intentional. From one perspective, the Party has to be involved. Most senior local and national government officials are CCP members, and Party committees parallel the state bureaucracy. This overlap of people and offices led more than one business executive to tell this researcher that the government and the Party may be “a distinction without a difference.” Despite that, the great majority of businesses that interact with officialdom on national public policy do so as if the distinction does matter. That is, they lobby the government as if it has its own independent authority. When attempting to learn about or influence a national policy, companies primarily go to government agencies. And although officials may wear a second Party hat, companies usually determine which official to contact based on their “[government] business title” (业务职称), not their Party post.

The government has become the locus of attention on national public policy issues for two reasons. First, although the Party regularly forms leading groups on a variety of economic issues, as an institution it has withdrawn from day-to-day involvement in the consideration of most national regulations outside of domestic and international security issues. Only the government has the breadth and depth of institutions to attempt to regulate what has become an extremely complicated economy. Government bureaucracies are assigned these roles and have official decision-making authority. And
second, while it is possible to coax a senior Party official to push a government agency to make a policy decision favorable to a company or industry, firms tend to avoid attempting this because such efforts can backfire. Government bureaucrats fiercely prize their turf and do not appreciate intervention from external sources, even senior Party officials. In addition, CCP officials can become involved in elite factional politics, which may make them a useful ally at one moment and a dangerous liability the next. Thus, to avoid offending bureaucrats with whom one has to interact over a sustained period or to avoid being associated with a political loser, there are strong disincentives to going outside standard government channels. You may win the narrow regulatory battle but lose the longer regulatory lobbying war.

The fourth significant aspect of direct lobbying is that the importance of guanxi has changed. Companies may hire former officials because of their contacts, and in surveys companies report that developing close ties with officials is critical. Hence, they often provide meals and gifts to officials. However, at the national level, where laws go through a complex evaluation process by many offices, guanxi serves more to help companies gain face time with officials than guarantee a decision will go in their favor. This is particularly true on major public policy issues in which companies on all sides of the issue all have excellent guanxi. Instead, companies need to rely more on the information they provide and the strategies by which they convey their message. The exception comes in instances where firms need approval for their individual business, in which case the backing of a single or just a few officials can make all the difference. A good example is Goldman-Sachs’s extensive development of personal relationships at the highest levels in the hope that it would receive approval to expand its business scope in China, an initiative which was successful. Such interventions are more commonly the purview of local governments; it is not surprising that the companies surveyed were basing their answers on their experience with local, not national, officials.

The final aspect of direct lobbying that deserves mention is the variable pattern of policy coalitions. Given the prominence of nationalism in Chinese foreign policy and the importance of SOEs to the CCP, one would expect the battle lines to be drawn between Chinese and foreign companies and state-owned and private companies. That is sometimes the case, as when Chinese retailers lobbied against Wal-Mart to have limits placed on the growth of large-scale chain stores. However, coalitions vary by industry and issue. This is largely a product of China’s integration into the global economy, increasing the common interests that many Chinese and foreign companies...
have with each other. Chin domestic private companies and MNCs have been on the same side of many issues that involve reducing the monopoly rights of SOEs. A good example is the Postal Service Law, in which private and foreign companies have lobbied the State Council’s Legislative Affairs Office and the State Post Bureau seeking to reduce or eliminate the postal service’s monopoly over delivery of small-sized mail. In 2006, they successfully persuaded the government to reduce the threshold from 350 to 150 grams, but neither has been fully satisfied. Hence, by early 2009, the law had yet to be issued. Finally, foreign industry and state-owned companies occasionally find themselves on the same side of policy debates on trade and investment matters. When some Chinese companies tried to erect new protectionist barriers by developing unique technical standards or initiating antidumping investigations against foreign firms, the MNCs’ Chinese customers and business partners have counter-lobbied on the side of the foreigners, limiting the protectionist impulse.

In sum, even as associations in China gradually liberalize, the scale and complexity of direct lobbying have grown much more rapidly and in ways that do not conform to standard preconceptions of China’s policymaking process.

Public hearings

The limited development of business associations is mirrored in the similarly slow maturation of other formal institutions created by the government to facilitate systematic consultation with society on matters of broad concern. This is clearly the case with China’s public hearings (听证会). Hearings date to the mid-1990s, when the 1996 Administrative Penalty Law allowed for people to challenge their fines. Subsequently, hearings have been created to deal with a range of issues, including pricing of public utilities and administratively regulated products, fair trade disputes involving imports, administrative licensing (such as bidding for government projects), environmental impact assessments, land requisition, and the adoption of legislation. The stated point of the hearings is to give those with conflicting interests an equal opportunity to state their positions and provide information to officials who will make the ultimate decisions.

The quality and substantiveness of hearings have varied widely. While some have offered a forum for genuine debate, others have been examples of “formalism” (形式主义) in which the organizers already know how they will decide on a policy issue and hold the hearing to give the appearance of open
consultation. A key factor appears to be the breadth of the issue being reviewed. For narrower problems where the parties are clearly identifiable, hearings have been substantive. When the questions are broader and those with an interest are more diffuse (and not specific individuals), the hearings have tended to be theatrical performances in which the participants and their perspectives are carefully choreographed by the government agency hosting the event. From the perspective of business, hearings on narrow issues that affect them may be of use, but those who are interested in affecting broader public policy issues find hearings of limited utility.

Antidumping hearings are a good example of an institutionalized deliberation that can have real value. Since the 1980s, Chinese firms have been penalized for dumping products on foreign markets and injuring companies in those countries. In 1997, China adopted its own antidumping regulations, subsequently revised in 2001 and 2004, recognizing that its firms could also use this tool to protect themselves against foreign competitors. Through 2008, China had launched investigations into 54 product cases. In most of these cases, the foreign respondents have been granted hearings to discuss whether they engaged in dumping, and whether their sales injured the Chinese companies that brought the case. Although the hearings’ hosts ought to be biased toward the Chinese complainants, participants report that the hearings offer opportunity for both sides to present their positions. At the same time, backroom informal lobbying is also common in these cases. In particular, the Chinese customers of the foreigners, who typically do not have a role in the hearings, in some cases have quietly lobbied against the Chinese complainants seeking protection. For example, in 1999 several Chinese steel companies initiated an antidumping case against Japanese and South Korean producers. The respondents defended themselves at a hearing, but in addition, their Chinese customers in the auto and oil industries privately lobbied the State Economic and Trade Commission against the dumping charges. In China’s lone safeguards case in 2002–2003, in which Chinese steel companies tried to block foreign steel from the domestic market, the lawyers for China’s oil industry made a passionate plea in the public hearing against the safeguards.

By contrast, the record for pricing and legislative hearings, which account in absolute numerical terms for the great majority of hearings, deserve more skepticism. Price hearings have been required since the adoption of the 1998 Price Law for the minority of goods whose prices are still set by the state, including public utilities (water, electricity, mail), public transportation (trains, planes, and taxis), and social services (medical care and drugs, education,
The hearings, hosted by pricing authorities, typically involve representatives from the operators attempting to modify their prices (usually an increase), consumers, government officials, and experts. Up until the end of 2005, there had been over 1,500 such hearings around the country.55

Price hearings have been cited for being consistently carried out in ways that limit their utility. People can offer to testify, but the pricing authorities make the final selection and often choose only a small minority of representatives who will criticize the price hike. Second, even when significant opposition has found its way into the hearings, the pricing authorities are not bound to follow the majority opinion and institute the price hike anyway. Third, the hearings are often not transparent. Some national hearings have been broadcast live on television, but in most cases, the broader public is not aware a hearing has been held, and the hearing transcript is not published. And fourth, hearings have become so commonplace and not real opportunities for debate that interest in them by all parties has fallen off.56 Hence, one commentator accused hearings of being a way to protect state-owned monopolies, while others call hearings “price raising meetings” (涨价会).57 As the following quote shows, even the official media, which typically avoids criticism of government policies and the policy process, has lost its patience: “Take a hearing held in Beijing last year for example. All 20 representatives voted unanimously for an increase in the price of electricity. Embarrassingly, previous online surveys carried out by Sohu.com and Sina.com, two influential online portals, showed more than 80 percent of voters opposed the same proposal.”58

Legislative hearings are rooted in the 2000 Legislative Law, which suggested that people’s congresses could, but were not required to, hold hearings on legislation. Almost every province and several major cities have subsequently passed related measures encouraging hearings. Between 2000 and 2004, 24 provinces’ people’s congresses held 38 hearings on 39 draft laws.59 These meetings face the same problems as price hearings. Participants do not reflect the breadth of interests on an issue, and their views are largely consistent with those of the people’s congress deputies. The hearings are typically not transparent, and there is no guarantee that the discussion has any effect on the legislation under debate.60 There have been very few hearings hosted by the NPC Standing Committee. The first was held in 2004 to discuss the Personal Income Tax. The main issue was how much to raise the minimum threshold of monthly income. The NPC’s opinion before the hearing was to raise the minimum from RMB 800 to RMB 1,500. Even though several people testified suggesting a
much higher threshold of RMB 3,000, the ultimate decision was just above the original view, RMB 1,600.61

Companies pay attention to hearings on specific issues when the key stakeholders are allowed to participate. However, most hearings are geared to reaffirm a decision already made elsewhere. In the case of price hearings, for the state-owned enterprises who stand to benefit from an increase in their rates, such events are a convenient ruse to demonstrate public concern. Observers increasingly recognize how hollow many of these meetings are. Aside from these monopolists, other business interests have gained little from hearings. Hence, they have not usually been central to firms’ efforts to shape public policy.

**Shaping media coverage**

By contrast, other informal practices are not only expanding but are more valued by industry as a way to promote their interests. One example is that of greater efforts by industry to shape media coverage in their favor. This view of the media in China as a potential tool for nonstate actors is not unique to business. Other recent research has uncovered how local officials and NGOs have begun to explicitly attract media attention to their causes, for example, in trying to thwart the building of local dams that threaten historic sites and ecosystems.62 Similarly, companies want to improve the public image of themselves and their industries to attract customers, but they also have a policy goal. A company that creates a good public image can be seen as being more worthy of attention and support by officials. Conversely, one company can seek to tar a competitor to reduce their foe’s policy influence. In addition, companies can use the media to more directly influence policy debates by attempting to frame issues and push policy positions. This development is surprising because of the CCP’s sustained efforts to control the media in general and the absence of official approval for such behavior. Yet the media has become vulnerable to becoming a tool of industry because of the economic incentives of media outlets and their reporters, the heavy emphasis on economic and business news coverage, and (as with officials) the media’s dependence on industry sources for much of their information.

In the opinion of many observers, the most common way for firms in China to influence the media is through buying complementary coverage.63 Companies which hold press conferences typically pay reporters to attend—the infamous “red envelope” (红包)—with the expectation that they will write positive stories for their publications. One government affairs specialist at a
company interviewed for this article said that they only gave cash stipends to cover reporters’ travel expenses, not supplement their salaries. Even if good coverage is bought, the action is based on the belief that good coverage matters.

Several company executives interviewed for this article reported that they spend a great deal of effort “educating” reporters about their company, its products, and policies that affect their industry. This is done on an ongoing basis, not only when a regulation is being considered in a ministry. One multinational executive noted that when his company’s product was facing potential fines for environmental pollution, his company paid for Chinese reporters to visit their research lab at their headquarters in Europe so that the reporters had a more solid understanding of the steps the company took to ensure their product was environmentally friendly.

Chinese companies may not have as sophisticated a strategy for shaping media coverage, but they are quite active at times. A common tactic to blunt foreign competitors is to play the nationalist card in the media. When the Chinese Food and Drug Administration was set to allow multinationals the right to sell second-hand medical equipment in China, domestic manufacturers published articles calling “the refurbished equipment ‘foreign garbage,’ and conjured up images of dirty scalpels and defective machines.” To the multinationals’ consternation, the Chinese Food and Drug Administration suspended consideration of the measure. Recently, the Carlyle Group tried to purchase Xugong, a state-owned Chinese machinery manufacturer. In response, the Chinese company Sany, which also hoped to acquire Xugong, launched an “internet war” against Carlyle through the CEO’s blog. Carlyle was eventually forced to accept a minority stake in Xugong, and domestic industry pushed Beijing to adopt regulations requiring government to block foreign acquisitions in key sectors.

Aside from hoping to influence reporting in the mass media that reaches the broader public, another tactic is to persuade journalists to write reports which are part of their internally circulated briefings whose main consumers are officials. Internal reference news (内参) is often more frank than published reports, and officials take these reports seriously. In 1998, when the Ministry of Finance was considering a special consumption tax on consumer electronics, the Chinese Audio Industry Association hosted a meeting with its leading company members, ministry officials, and reporters. One journalist from the Economics Daily (经济日报) wrote an internal reference report that reached the desk of Premier Zhu Rongji. Upon learning about the companies’ extreme displeasure with the impending tax, Zhu canceled its implementation.
As already noted, the frequency with which companies attempt to influence media coverage and in what way is far from clear. Yet anecdotal evidence indicates that companies value positive media coverage of their companies and discussion of policy issues that matter to them far more than they care about participating in public hearings.

**Conclusion**

An examination of China’s formal institutions for aggregation of industry interests would understandably lead one to believe that business lobbying is uncommon, or at least, highly unproductive. The central leadership is torn; it wants to consult with business on public policy, but it fears the political consequences of doing so. Hence, most business associations, particularly those at the national level, operate in name only, and public hearings are held primarily for show. As a result of these constraints, attempts at influence peddling have been driven to take other forms. Lobbying is often highly fragmented, and companies rely on various informal tactics, from privately meeting with policymakers to influencing the media.

Such a conflicted attitude about business lobbying is reflective of the state’s broader concerns about how to reorient its relationship with society. The government wants society to provide more public goods and act as its eyes and ears to keep tabs on local malfeasance. Yet actual initiatives always end up as half-measures that reduce their genuine impact. Since the early 2000s, various central and regional governments have encouraged the taking of popular surveys to gauge the quality of their work. In some cases, these polls have highlighted weak performance and generated pressure for change. But usually the surveys have been controlled, directly or indirectly, by the agencies seeking to be graded, leading to predictably rosy findings.

Similarly, in 2008 the government implemented an open information statute giving citizens the right to demand access to government documents and other public information. According to sources, implementation has been quite spotty, with a very low percentage of requests receiving a response, let alone being fulfilled.

This practice of constrained liberalization has led Chinese experts to engage in a vigorous debate, at least orally, about the efficacy of these reforms. At two conferences which the author attended in Guangzhou and Beijing in late 2008, some attendees argued that incremental reforms to
institutions governing state–society relations—including industry associations, hearings, and public evaluation mechanisms—are not implemented ideally, yet there has been gradual improvement on every front. Over time, authorities have been socialized to accept these institutions and welcome their improvement. Others argued that weak implementation corrupts the very essence of these institutions and that only when China’s broader political environment is different will such institutions gain substantial significance and provide genuine accountability.

Given these circumstances, it is worth considering the effect of business lobbying in its current form on the quality of Chinese governance and the state’s ability to effectively regulate the economy. The growth of business lobbying, no matter how imperfectly structured, has brought certain benefits. By taking into account the views of those to be regulated, greater information is available to decision makers, and it is more likely that adopted policies will be acceptable to those being regulated, and hence, more implementable over the short and long term. Ignoring industry views has led many policies to be “dead on arrival.” Also because of China’s greater integration into the global economy, growing transnational business alliances act as a counterweight against protectionist efforts.

On the other hand, numerous negative consequences from business lobbying are possible. More actors, especially those with clout, can slow down a process that operates on principles of consensus and lead to further gridlock. With more actors involved, bold reforms are more difficult as policies include greater compromises to satisfy multiple parties. For example, drafting of the Antimonopoly Law began in 1994, and it took seven drafts and countless meetings coordinating among the conflicting interests before the law was finally adopted in 2007. In addition, if businesses are quite influential, they can “capture” regulatory agencies and push through policies that fit their narrow interests but conflict with the greater public good. Powerful lobbies may advocate reformist policies, but they may also promote reducing competition and fight against greater environmental protection or more stringent public health regulations. The fragmentation of lobbying, the limited transparency of the policy process, and the limited access to the process by non-business interests may make China particularly vulnerable to such an outcome. Measuring the impact of the rise of business lobbying, through both its formal structures and informal practices, on public policies and regulatory efficacy and weighing alternative programs for reform are issues that deserve further investigation in the years ahead.
Notes

The author wishes to express his gratitude for feedback on an earlier version of this article to the participants of the “International Conference on the State Capacity of China in the 21st Century,” held at the City University of Hong Kong, 19–20 April 2007.


7 Jiang Tong, “Jingtibumen liyipengzhang” (Guard against the expansion of departmental interests), *Liaowang* (Outlook), 9 October 2006.


should also note that the constraints on association’s activism is one reason scholars believe there is little pressure from industry for the state to democratize.

10 It is important to recognize that when discussing the views or behavior of an organization, the cited source may or may not be from that organization. The most reliable information about a company’s political activities or the reasons for a government agency’s decision do not necessarily come from that company or government agency. For more information about the interview process, see Kennedy, *The Business of Lobbying in China*, 189–96.


12 Mayhew, who coined the phrase, notes that elections are only one of multiple mechanisms that make government responsive to outside influence. Besides lobbying legislators, industry also successfully lobbies executive branch departments and agencies, most of whose staff are unelected civil servants, hence eliminating elections as a direct source of influence on their behavior. See David R. Mayhew, *Congress: The Electoral Connection* (New Haven, CT: Yale University Press, 1974); and David R. Mayhew. “Observations on Congress: The Electoral Connection A Quarter Century After Writing It,” *PS: Political Science and Politics* 34, no. 2 (2001): 251–2.


17 A 2006 survey of 100 industry associations in Guangdong found 34 chairmen and 37 secretaries-general were current or former officials, another 46 chairmen, and 26 secretaries-general were employees of state-owned enterprises. Qiu Haixiong and Wu Junmin, “Hangye xiehuiyanjiuzonglun:jingyan yu keti” (Summary of industry association research: experience and topics), in *Zhongguo gongmin shehui fazhan lanqishu* (Blue book on civil society development in China), ed. Gao Bingzhong and Yuan Ruijun (Beijing: Peking University Press, 2008), 254.

18 The Self-Employed Laborers Association is a government-controlled organization to which all small proprietors belong upon registration. The organization officially represents their interests, but it acts as a watchdog for government regulators. The China Enterprise Confederation-China Enterprise Directors Association officially represents large state-owned enterprises (and some large private ones as well), but it is essentially moribund.


22 The only part of the steel industry where associations are substantially independent of the state is in the stainless steel subsector, which not surprisingly is populated with many small and medium-sized private companies.
23 Interviews.
24 One recent survey is more critical of Wenzhou associations. Its results indicate that even these more independent groups often prefer to develop close relationships with officialdom, including hiring former officials, in order to be more effective. Yu and Jiang, “Shanghui fazhan.” For a comprehensive history of Wenzhou’s associations, see Yu Jianxing, Jiang Hua, and Zhou Jun, *Zai cansunzhongchengzheng de zhongguo gongmin shehui: jiuyi zhejiang wenzhou shanghui de yanjiu* (Growing participatory Chinese civil society: based on research of associations from Wenzhou, Zhejiang) (Hangzhou: Zhejiang University Press, 2008).
25 On Fujian’s successful extraregional associations, see Mu Jia, “Fujian yidi shanghui fazhan weihe ruci pengbo” (Why development of Fujian extraregional associations is so thriving), *Zhonghua gongshang shibao* (China business times), 16 May 2006.
26 As of October 2006, only eight extraregional associations had successfully registered in Beijing. When a reporter asked a Beijing official about the many others he had encountered, the official responded, “Those you encountered were all ‘illegal organizations.’” Jia Linnan, “Beijing yidi shanghui diaocha” (Survey of extraregional associations in Beijing), *Zhonghua gongshang shibao* (China business times), 24 October 2006.
27 Interviews.
28 Yu and Jiang, “Shanghui fazhan.”
29 Li Aiming, “Shanghui nanti: hukou, hukou!” (Difficult problems of chambers of commerce: resident permit, resident permit!), *Zhonghua gongshang shibao* (China business times), 13 September 2005; Interviews.
30 Interviews.
31 This finding is consistent with the survey of 11 Chinese companies discussed in Tian and Gao, “Zhongguo qiyede youshui xingwei.”
32 Interviews.
36 In the 10th NPC (2003–2008), 633 of the 2,984 deputies to the NPC were from state-owned and private companies. Cai Dingjian, *Zhongguo renmin daibiao dahui zhidu* (The institution of the Chinese people’s congress, fourth edition) (Beijing: Law Press, 2003), 221.
39 Pang, “Ge liyiu youshui gongsifa.”
40 “Zhongguo gongshang youshui dongtai.”
41 Interviews.

43 Interviews.

44 Interviews.

45 Interviews.

46 Tian and Gao, “Zhongguo qiyedeyoushui xingwei.”

47 Liu, “Youshui, zhan zai da menkoude moshengren.”


50 Huang Hai, “Minying he waizikuaidi you jiaoda yiyouzhengfa keneng tuichi chutai” (Private- and foreign-invested express deliverers have big difference, postal service law issuance possibly delayed), Diyi caijing ribao (China business news), 15 February 2006; Mure Dickie, “China’s Postal Reform Plan Angers Couriers,” Financial Times, 6 October 2006.


56 Peng and Xue, “Zhengce zhiding.”


58 “Public Hearings: Driving Engine.”


60 Hu Yuqiang, “Wanshan wo guo lifa tingzhenghui zhidude lifa sikao” (Thoughts on perfecting the law of our country’s legislative hearings system), Helhe xuebao (Heihe journal), no. 124 (2006): 72–4.
61 Ni and Meng, “Zhongguo zuigao lifa jigou”; “Public Hearings: Driving Engine.”
62 Mertha, China’s Water Warriors.
63 Interviews.
64 Tian and Gao, “Zhongguo qiyedeyoushui xingwei.”
71 There are signs that important components of China’s energy policy, including the decision to invest in foreign oil and natural gas companies and fields abroad and in how to develop the country’s power grid, have been captured by China’s largest oil companies and state-owned power generation companies. See Erica Downs, “China’s Quest for Overseas Oil,” Far Eastern Economic Review, September 2007, 52–6; and Edward A. Cunningham, “China’s Energy Governance: Perception and Reality,” Audit of Conventional Wisdom 7, no. 4 (2007), <http://web.mit.edu/cis/acw.html>, accessed 15 April 2007.

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“Ye shuo tingzhenghui” (Also discuss hearings). Lianhe zaobao (United morning news), 7 September 2004.