Business & Society
Volume 46 Number 2
June 2007 174-200

10.1177/0007650307301382
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hosted at
http://online.sagepub.com

Transnational Political Alliances

An Exploration With Evidence From China

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This article draws attention to an understudied phenomenon, transnational political alliances (TPA), which occur when multinational corporations cooperate with local companies to influence public policies of the host government. The article first explores the economic and political sources of TPAs, their structures, and the obstacles to their formation. It then examines TPAs in the context of China, a critical case because of the hostile political environment that discourages TPAs. However, the surprisingly common occurrence of TPAs in China indicates the power of economic incentives for political cooperation yet also suggests the need for further studies of TPAs in a wide variety of economic and political settings.

Keywords: *China; lobbying; policymaking; multinational corporations; strategic alliances*

It has become utterly commonplace to speak about globalization of the world economy. Although there are disagreements about its benefits and costs, it is accepted as fact that production, financial, and distribution networks crisscross regions and continents (Bhagwati, 2004; Stiglitz, 2003). To produce more efficiently and reach new markets, companies enter into partnerships of varying degrees with firms from other countries at every stage of the product cycle. To sell computers that carry its label, Dell cooperates with firms from Malaysia, Taiwan, China, the Philippines, Thailand, and elsewhere (Friedman, 2005). Similar examples can be found by the thousands in every industry, from T-shirts to televisions (Rivola, 2005).

Author's Note: An earlier version of this article was presented at the conference "Corporate Political Activities in an Internationalizing Economy," held at the Free University, Amsterdam, Netherlands, February 17-18, 2006. The author would like to thank the conference participants, particularly Doug Schuler and Nicolas Dahan, as well as Ethan Michelson, Armando Razo, and three anonymous reviewers for their comments and suggestions.

As ubiquitous as economic globalization has been, much less clear is to what extent it has been accompanied by parallel developments in political advocacy. It would seem there would be strong incentives for multinational corporations (MNC) that routinely engage in economic coalitions with foreign companies abroad to also participate in transnational political alliances (TPA), in which the companies, because of their shared business interests, adopt the same position on regulatory policies and lobby, separately or together, the relevant governmental authorities to achieve their common objectives. Drawing on theory and empirical data, this article explores the logic and forms of TPAs as well as obstacles to their development.

A review of the literature gives few signs that TPAs are widespread. Research on global strategic alliances and international business networks focuses on the economic aspects of these arrangements and usually does not discuss how political cooperation can further business goals (Beamish, 1998; Gomes-Casseres, 1996; Possel-Dölken & Zheng, 2002). There are occasional references to political cooperation between MNCs from different countries at the international regime level, such as when "transnational business coalitions" spurred European governments to concede authority to the European Commission (Fligstein, 2002, p. 1230) and when MNCs from several countries jointly lobbied to shape the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (Sell, 2003). However, studies on MNCs' political activities abroad in the countries where they operate are largely silent on their cooperation with local companies. The earliest studies found that MNCs had no chance to influence the policies of host governments (Green & Korth, 1974; Penrose, 1987; Robock, 1971). Subsequent research determined that MNCs could use a variety of resources at their disposal to overcome the "liabilities of foreignness" in bargaining successfully with host governments, including their financial and technical endowments as well as intervention by their home governments or international organizations (Eden & Molot, 2002; Moon & Lado, 2000; Ramamurti, 2001; Rugman & Verbeke, 1998; Tarzi, 1991). Some have found that MNCs can have a positive relationship with host governments abroad, but they typically do not include local business partners as part of the equation (Boddewyn & Brewer, 1994; Dunning, 1998; Luo, 2004a, 2004b; Rugman & Verbeke, 1998). The most systematic studies of MNC political activity (Hillman, 2003; Hillman & Wan, 2005) do not include TPAs in their survey questions under the strategy of constituency building, where the focus appears to be on voters, civil society groups, and research organizations. Those who have mentioned how local business partners might help improve MNCs' relations with government focus on local governments and firm-specific issues such as investment approval, leaving aside the national government and broader regulatory issues. And they leave undiscussed the foundations for political cooperation (Luo & Mezias, 2002).

The same oversight of possible cooperation is also found when the focus is shifted to local firms that face a choice between opening up to foreign competitors (and partners) or hiding behind protective barriers. Early research on trade policy emphasized that protectionist interests predominated and could be overcome only by political institutions that allowed an executive to promote liberalization while channeling protectionist interests' demands to legislators (Biglaiser, 2002; Destler, 2005; Goldstein, 1993). More recently, there has been recognition of the growing influence of proliberal corporate interests in reducing trade and investment barriers, for example, in the push for the creation of the North American Free Trade Agreement (NAFTA; Kollman, 1998, pp. 133-154) and in countering attempts to introduce safeguards and antidumping measures (Destler, 2005; Milner, 1988). Yet these studies typically focus only on the domestic proliberal actors and do not discuss political collaboration with their foreign partners.

Given the economic logic for TPAs, one is led to ask whether the limited scholarly attention to them is because such activity is so rare or whether we have neglected an important political strategy. One reason TPAs may be overlooked is the division in academic business and political economy studies between international and comparative research (Boddewyn & Brewer, 1994). The former focuses heavily on MNCs, with empirical data often collected through surveys. Comparative studies have been intent on identifying national patterns of government–business relations, such as corporatism or pluralism. They use case studies and interviews as much as surveys, but they typically bracket out MNCs to understand the "domestic" system and to limit variation in the independent variable.

To address this gap in our understanding, this article explores the rationale behind TPAs and then examines the political activity of MNCs and local firms in the People's Republic of China (PRC). The rapid growth in foreign direct investment (FDI) in China along with the proliferation of arm's-length arrangements between MNCs and Chinese manufacturers have created the possible foundations for political cooperation. At the same time, from a theoretical perspective, China is a critical test case because of the many obstacles that exist there to TPAs, including its highly authoritarian political system, the expectation of national loyalty, industrial policies that privilege local industry, and stark cultural differences separating Chinese and foreign business executives. Existing research would seem to support the significance of these obstacles. Some studies have noted that to overcome their liability of foreignness, MNCs hire PRC citizens to interact on their behalf with local officialdom (Chen, 2004; Luo, 2001; Pearson, 1997; Studwell, 2002, pp. 118-121), but there is little documentation of MNC–local company political cooperation. Some scholars indicate that MNCs that cooperate with local companies or joint venture partners in interacting with the Chinese government achieve better business results (Luo, Shenkar, & Nyaw, 2002; Sanyal & Guvenli, 2000), but they do not investigate these firms' political activities. If TPAs are found in China, then they likely exist in more hospitable environments, something that could be verified by future research.

This article suggests that although there are significant obstacles to TPAs, they are likely more common than realized and allow both the MNCs and their local partners to shape public policy in their shared favor. In the following section, the article considers the logic for transnational political alliances and the forms they might take. The discussion then turns to the conditions supporting and deterring TPAs in China. Next, the article documents the range of political activities by MNCs in China, from direct lobbying of the government to alliances with Chinese allies. The significance of TPAs is further illustrated through case studies of several recent policy debates in China of great significance to MNCs and their Chinese allies. The article's conclusion considers the implications of these findings and suggests possible avenues for further research.

The Logic of TPAs

The fundamental source of political cooperation between companies from different countries is their shared economic interests. Even a quarter century ago, it would have been appropriate to expect that MNCs and local companies would typically see each other as competitors (Kudrle, 1987). The explosion in international economic activity and business cooperation makes that assumption less secure. In addition to the expansion of FDI and cross-border mergers and acquisitions (see Table 1), there has also been a rapid increase in international trade of intermediate goods and services as well as cross-border corporate debt issuance. Arrangements between companies can vary according to the depth of their cooperation: from formal merger or acquisition to joint venture, strategic network, outsourcing, long-term

Table 1
Global Foreign Direct Investment (FDI)

	Total	Developed Countries	Developing Countries	China
Total inward FDI stock ($US billions, 2004)	8,895	6,470	2,226	245
Foreign affiliates located in country (2003)	582,579	247,241	335,338	215,000
Inward FDI stock as percentage of GDP (2004)	21.7	20.5	26.4	14.9
Mergers, seller's home location ($US billions, 2004)	380.6	315.9	54.7	6.8

Source: United Nations Conference on Trade and Development (2005).

contracts, and individual sales (Possel-Dölken & Zheng, 2002). In addition, companies may have little direct communication but engage in complementary businesses, such as building a product to conform to technical standards established by another company, or how truck manufacturers and cargo shippers both depend on low barriers to distribution to do business. Interdependence between partners grows as the duration of their alliances lengthens. And partnerships take on added importance if there are few substitutes for either side, for example, if a local company can obtain a high-quality input only from a certain MNC. In short, as the depth, duration, and unsubstitutability of these arrangements grow, the shared policy interests of the alliance members expand accordingly.[1]

The nature of the partnership determines whether companies have shared interests that generate even an initial desire to cooperate politically in the first place, but multiple factors may affect whether companies will see cooperation as beneficial or costly and, in turn, what specific form political action will take (see Table 2). The cost-benefit calculation can be made in absolute terms and in comparison to other alternative paths, such as lobbying independently, lobbying in a group of fellow MNCs alone or with local-firm involvement, and seeking the intervention of the MNC's home government.

The number of potential variables is high, making straightforward prediction difficult. In addition, some factors could conceivably promote or hinder cooperation. Thus, expectations about the likely impact of the factors listed in Table 2 must be tentative.[2] It would seem reasonable to expect that the more substantial the business partnership, the more likely an MNC

Table 2
Structuring Transnational Political Alliances

Factors Determining Political Cooperation	Selected Political Action
1. Nature of partnership • Depth • Duration • Substitutability 2. Political institutions • Regime type • Government–business relations • Significance of nationalism 3. MNC characteristics • Duration in country • Size • Headquarters–subsidiary relationship • Subsidiary manager qualities 4. Local company characteristics • Length of existence • Ownership (private, state) • Regional location • Management qualities 5. Policy issue	1. Depth of cooperation • United approach • Direct, detailed coordination • Limited consultation • Coincidental parallel activity 2. Strategy • Information • Financial • Constituency • Trust building 3. Approach • Transactional or relational 4. Participation level • Individual MNC–local firm cooperation or within a larger group

Note: MNC = multinational corporation.

and local firm would cooperate politically. In addition, the more open the political system, the more likely such cooperation is politically acceptable. Democracies tend to permit more open political advocacy than authoritarian regimes. Pluralist systems place far fewer constraints on local firms than corporatist ones, not to mention Leninist systems, which in principle expect hierarchical discipline and avoidance of open contestation. If a country is relatively cosmopolitan and open to foreign ideas and actors, nationalism is unlikely to be an obstacle to alliances between foreign and domestic companies. On the other hand, if nationalist sentiment is quite strong, for example, because of a legacy of colonialism, local firms that cooperate with MNCs could be branded as disloyal, and the MNC could be accused of neocolonialism or of fermenting political disloyalty. In such a context, however, there would be high incentive for an MNC to find local partners to reduce the stigma of being entirely foreign.

Less clear is the effect of the characteristics of the MNC and local firm. The longer an MNC operates within the country, the greater likelihood it will have developed strong ties with local firms with which it can politically cooperate. On the other hand, a long-tenured MNC might need a local partner less than a newly arrived foreign company would, because it had time to develop its own contacts with the host government. A larger MNC may be a more attractive partner to a local firm, but such a multinational may be less dependent on a local ally than would a small foreign company. If an MNC subsidiary is operationally independent of its headquarters in the home country, it may be more able to "go native" and cooperate politically with local firms. On the other hand, the subsidiary manager may be predisposed toward acting individually or only in concert with other MNCs (Blumentritt, 2003). A long-standing local firm may be more valuable to an MNC, but it may need an MNC less than a newer firm would. Local companies based in the hinterland may be less attractive as political partners than those based in the national capital or a major city, but such firms may find MNCs highly valuable because of their greater relative access. In short, the resources and benefits to the MNC and local firm may be complementary, shoring up the others' needs, or they may be asymmetric, with characteristics of one that generate the need for cooperation with the other that may make the latter less interested in cooperation. And finally, the nature and importance of the policy issue that is before the companies will affect whether they cooperate. Issues specific to their partnership, such government approval for an investment or the licensing of a product, are likely to inspire cooperation. Broader regulatory issues may also provide incentives to cooperate but may be less intense if the issue is so broad as to affect a wide swath of companies in many industries and regions.

If the incentives for political cooperation are sufficient, the question then becomes one of determining the type of political action the companies will choose. The first question concerns the depth of cooperation between the foreign and local actors. At one extreme, they could essentially act as one and push their cause together. The alliance members could act separately yet directly coordinate their lobbying activities. Alternatively, they could engage in limited consultation yet act independently. The lowest level of cooperation would occur when allies pursue the same policy outcome without any coordination whatsoever, either because they are unaware of each other's actions or they intentionally avoid communication.

Once allies decide to act, regardless of the level of coordination, the question then becomes what type of political advocacy to adopt. The standard choices of political advocacy identified in earlier research (Hillman, 2003; Hillman & Hitt, 1999) apply here, though with slight modification to make the menu of options more universally applicable. The MNC and local ally may take a transactional approach and lobby on a specific issue, or they may take a relational approach and attempt to gradually make officials see issues from their industry's perspective. Foreign multinationals and local firms may just cooperate bilaterally, or they may act in concert with larger groups, such as in an international or local trade association. The "information" strategy applies universally regardless of the type of political system, but both the standard "financial" and "constituency-building" strategies include elements that apply primarily in democracies (such as financial contributions to candidates and mobilizing grassroots organizations and voters). Such actions are less likely to occur in authoritarian regimes. Other aspects of these strategies are more likely to apply, including financial commitments to government-endorsed programs and to individual officials, and generate public understanding and support for one's positions. Table 2 also includes a new strategy, "trust building." In addition to objective arguments, financial inducements, and societal pressure, officials may also be more likely to decide in an alliance's favor if they personally trust representatives from that camp. Efforts to build trust, whether through the use of a longstanding friendship, repeated interactions, or entertainment, are likely important in a wide variety of political systems, although it may be more prevalent in settings where decision making is especially opaque. Given their foreign status and limited relationships with officials, MNCs may depend heavily on local allies in applying this strategy.

It is difficult to predict in advance which tactics will be employed, but the factors that influence whether cooperation will occur at all also likely shape the type of political actions in which the firms engage. The permutations of possible cause-effect patterns are too large to map out, but some of the likeliest issues could be mentioned. One could hypothesize that firms involved in the deepest business alliances facing an issue critical to their operations are the most likely to act in a united way, but other factors may intervene that lead them to choose to act more independently. If nationalist sentiment is strong, they may instead choose to operate more independently. MNCs and their local allies with long tenures may be more likely to adopt a relational approach given the well of official contacts they have developed; they may also be able to draw on their personal ties with officials and not just rational arguments or financial inducements to get their way.

In sum, the growth of international business networks has created the conditions for corporate allies from different countries to collaborate to resolve shared policy dilemmas. Whether they do and how they would proceed, though, depends on a wide range of factors. Determining how common TPAs are and what strategies they employ requires empirical analysis. Hence, the remainder of this article explores TPAs through the context of recent corporate political activity in China. Because the PRC's political environment provides distinct disincentives for TPAs, the country is an ideal critical case to measure the minimum development of TPAs in market economies.

Data on government–business relations and lobbying in China come from primary and secondary materials and, more important, from more than 300 in-depth interviews this researcher carried out with executives from Chinese companies and MNCs, the heads of business associations, and journalists and independent scholars. Taking place between 1998 and 2005, interviews with over 50 companies focused on their direct interaction with Chinese government officials and indirect contact via industry associations and other intermediaries. Care was taken to interview representatives from firms of different sizes, industries, ownership (private and state owned), and nationality. General questions were followed by an inquiry into specific policy issues in which the firms had an interest. It was determined whether they contacted the government, industry associations, and other firms about these issues; the form and depth of their consultation; and whether the government adopted their suggestions. Parallel interviews were held with government officials and association representatives to triangulate information to ensure as accurate a rendering of events as possible. Repeated interviews with sources over several years also helped to improve data quality, a process less easily conducted when employing random-sample surveys.[3]

MNCs in China and Obstacles to Political Advocacy

A precondition of TPAs is extensive cross-boundary business alliances and government regulations that affect the interests of the coalitions. China has a bounty of both.

A cornerstone of China's economic success has been an effort to attract FDI and integrate Chinese companies into global production and sales networks. Between 2001 and 2005, China absorbed $274 billion in FDI; in 2005 alone, 44,000 multinationals invested more than $60 billion in China ("China Uses," 2006; Jiang, 2006). Companies from Hong Kong and Taiwan have led the way, but firms from the United States, Western Europe, Japan, and South Korea have also invested significantly during the past 15 years to take advantage of low production costs and gain access to the Chinese market. In the mid-1990s, roughly three quarters of investments were joint ventures with Chinese partners. By the mid-2000s, three quarters were wholly foreign-owned subsidiaries of MNCs (*China Statistical Yearbook*, 2005, p. 643). Foreign investment has fueled a rapid rise in China's merchandise trade with the rest of the world. Most of China's imports are not finished products but intermediate goods that undergo further processing (Yusef, Nabeshima, & Perkins, 2006). More than 60% of China's exports, which reached $762 billion in 2005, involves foreign-invested enterprises that use China as an export platform. In information technology, more than 85% of China's trade involves such firms (Rosen, 2003). Where foreign firms have not directly invested, they often depend on Chinese subcontractors to provide assembly or low-end manufacturing services, a situation most common in textiles and toys. In addition, domestic Chinese firms are also increasingly obtaining inputs from abroad and hoping to export a larger share of their production, both under their own brand name and as original equipment manufacturers for foreign clients. In short, MNCs and Chinese industry have become joined together in global production networks (Fishman, 2005; Miller, 2006; Naughton, 1997; Sull, 2005).

As China has opened its doors to foreign business, the government has also intensively revised the legal foundations of the economy. The move from plan to market has been accompanied by the adoption of thousands of new policies and regulations that directly shape the life chances of companies, domestic and foreign. From 1980 to early 2002, the National People's Congress, China's legislature, adopted more than 420 laws, and the State Council, China's cabinet, independently issued another 920 ("Huge Market," 2003). This does not include the thousands of rules and regulations adopted at the local level by provincial, county, and municipal governments. In addition, joining the WTO required China to modify, eliminate, and create several thousand regulations to bring China into conformity with international agreements and codes (Cass, Williams, & Barker 2003; Lardy, 2002).

Although China has moved from a centrally planned to a market-oriented economy, it has not adopted a laissez-faire, free-market approach. Every sector, from mining to computers, is highly regulated at every stage of business, including acquiring a business license; obtaining financing; engaging in research and development, production, sales, and distribution; distributing profits; and paying taxes. Because these regulations directly affect the profitability of MNCs and local industry alike, there is a strong incentive for firms to pay attention to and influence the policy process.

As much as companies would like to do so, they are constrained in at least four ways. The first concerns controls on open political activity as a whole. China is governed by the Chinese Communist Party (CCP), which is not accountable through elections and does not permit other political parties to challenge its authority. As a Leninist organization, the CCP is organized hierarchically and expects lower-level officials to follow the dictates of their superiors.

Second, there are constraints on association independence, which is usually essential for effective collective action. China officially has an association system for managing government–business relations that is somewhat akin to state corporatism (Schmitter, 1974). Associations in China can be divided between chambers of commerce whose members originally shared a common ownership form (such as state owned, private, or foreign) and industry-specific associations whose members cross ownership boundaries. In the former category are the All-China Federation of Industry and Commerce, which caters to private business, and the China Enterprise Confederation–China Enterprise Directors Association, which is composed of mainly large, state-owned enterprises (SOE). There are approximately 400 national industry associations of different types. The government has had a role in the creation of most of the country's national associations as well as the tens of thousands of local associations. Most have been staffed by government officials, have had their offices in government buildings, and have been financed out of the government coffers. Organizationally, there is supposed to be only one association per product category in a given region.[4] And last, in terms of function, the government has historically viewed associations as vehicles for implementing state policies and only marginally as avenues for articulation of members' interests.

Government–business relations in China in practice, though, do not adhere to this simple template. The constraints on associations have not made them entirely useless to their members. Associations that sacrifice some of their autonomy can in return gain greater access to officialdom and serve their members.[5] And despite the requirement for one association per product category, overlapping jurisdiction is increasingly common.[6] However, such constrained organizations are typically inadequate for most firms seeking to seriously influence policy. Hence, as a Shanghai government official in charge of regulating associations told me, associations in China are treated in the same manner pedestrians treat inconvenient road overpasses: They cross the street directly at ground level (Interview 2005.25). Similarly, the compromised autonomy of associations has led businesses to often bypass their associations and lobby the Chinese government directly, one-on-one or in informal groups, rather than via permanent organizations.

Third, a generally opaque policy process, a norm of government–business cooperation, and wide discretion for local officials in interpreting and implementing national policies put a premium on developing good connections with officials throughout the system, what the Chinese call *guanxi* (Luo, 2001; Pearson, 1997; Seligman, 1999). Such access is crucial to obtaining information about the state of the policy process and contributing one's own suggestions. But surprisingly, although business lobbying is dominated by one-on-one contact between company executives and officials, the great majority of such interaction at the national level does not involve patron–client ties. Good connections are certainly helpful in opening doors, and there are Chinese public relations companies staffed by former officials that specialize in obtaining access (what could be called "private relations companies"). But having guanxi cannot ensure that the government adopts one's policy preferences. Guanxi now is so common that usually all sides to an issue have the connections they need to have their views heard. In addition, national policy issues are adequately complex that specific knowledge about industries and the economy are needed for one's positions to have any currency in the debate. And the number of officials and steps involved in adopting national policies is so high that it is difficult for a company to buy its way through all the necessary gatekeepers.

These conditions do not hold at the local level, where the issues on which government and business interact are often more narrow and company specific, for example, obtaining approval for a loan, permit, or license. Such firm-specific policies are usually decided by a small number of people, often just a single official. Such circumstances are more prone to patron–client ties, which may be why corruption is rampant among local officials.

If clientelism is not widespread at the national level, a good question to ask is, Because China is not a democracy and there is no electoral connection between officials and society, why then does the government bother to listen to businesses, let alone adopt their suggestions? The answer is that an electoral connection does not fully explain lobbying in democracies either.[7] A large portion of the executive branch in democracies is composed of unelected civil servants with long tenures; yet they still open their doors and ears to lobbyists. Companies are often the best source of information about their industries, and officials need to have a modicum of knowledge about the industries they regulate to determine policy. Moreover, from the firms' perspective, they want to engage not only in transactional lobbying regarding a single regulation or rule, but also in relational lobbying, teaching officials to see issues from their industry's perspective so that when a specific issue does arise, the official is already properly schooled to make the "right" decision. Finally, business success is central to achieving rapid economic growth, low unemployment, and accumulation of the tax revenues that fund the provision of public goods. These goals are not just in the country's national interests, they are the yardsticks by which officials' own performance is measured. Hence, like in capitalist countries, the business community in China has a privileged position at the policy table, and it does not need to always bribe officials to take its seat (Lindblom, 1977, pp. 170-188).

The final factor constraining political activity, particularly for MNCs, is the country's strong sense of nationalism. It is generated by the invasion and occupation of parts of China by Western powers and Japan during what the Chinese term the "century of humiliation" (1840 to 1949; Gries, 2004). Such sentiment translates into an activist industrial policy that expressly promotes the interests of domestic enterprises versus those of MNCs. It also means that government officials typically are less likely to believe that MNCs' policy suggestions are in China's best interests and that domestic firms have to be cautious about publicly taking policy positions favored by foreign industry.

China's authoritarian regime, the constrained associational activity, the importance of informal connections, and the prominence of nationalism combine to create a difficult context in which MNCs operate, including obtaining policy support from local business partners.

MNC Lobbying in China: Using Multiple Strategies

Despite these multiple obstacles, MNCs are politically active in China. They take a variety of paths to reach Chinese officialdom, including through TPAs with their local partners, and they employ multiple strategies (information, financial, constituency building, and trust building). As a result, they regularly have their suggestions incorporated into new laws and regulations.

Depending on local allies is not their only means of lobbying. MNC representatives consistently report that they interact directly with government regulators. Most MNCs have a representative office in the national capital, Beijing, for this purpose. The largest firms have a government affairs staff, but the country manager is almost always expected to have government relations as part of his or her responsibilities. The staff and management interface with a wide swath of national and local agencies depending on the policy issue. In addition, when the CEO from the home headquarters visits China, he or she often holds meetings with senior officials, including ministers and members of the political elite. Microsoft's Bill Gates has visited China more than 25 times, and on each visit, he has met with a member of the Party's Politburo Standing Committee ("Gates Pushes," 1994; Interviews 22).

When acting on their own, MNCs have used a range of advocacy strategies. They provide briefings and specific policy suggestions in meetings arranged by the government and ones they host themselves; contribute technology and funding to government-supported initiatives and establish research-and-development centers; offer travel opportunities and other material inducements to officials, legal and otherwise; and provide equipment training programs to universities.[8] Building trust with officialdom is still an essential component of government affairs. As a result, MNCs often hire former Chinese government officials to lobby the agencies they once served. Having native Chinese serve in this role reduces the cultural divide between themselves and the government. But MNC representatives all concur that personal relations do not have the clout they once did. Good guanxi helps firms gain access to officialdom and ease clarification of their message, but without quality products and a well-reasoned argument, officials are unlikely to accept an MNC's policy proposals.[9]

As important as direct contact is, MNCs also utilize associations to a greater extent than Chinese firms. Many MNCs are members of the government-sponsored China Association for Enterprises with Foreign Investment, but this organization has not sufficiently served its members because of its official provenance (Pearson, 1997, pp. 122-131). Far more significant are trade groups established without any Chinese government involvement, and thus, they fall outside the standard state-corporatist framework that governs local bodies. There are dozens of nationally based chambers of commerce, all of which have offices in the capital, and a few also have offices in Shanghai and Guangzhou.[10] Some, such as the American Chamber of Commerce, were created by industry, and membership is limited to those who voluntary join. Others, such as the German Chamber of Commerce and the European Union Chamber of Commerce in China, were founded by their home governments, and all companies in China from their region are members (Interview g22). Chambers of commerce lobby both the Chinese government and their home governments, and they often have committees and working groups to focus on specific industries and momentary problems (Kennedy, 2005a, pp. 33-36).

In addition, MNCs are regularly members of foreign-based sectoral associations, which have voluntary membership and proactively defend their members' interests. These groups encompass a range of industries (such as soy beans, telecommunications, banking, and entertainment), whereas others focus on particular problems. For example, the Quality Brands Protection Committee represents 130 European, Japanese, and American firms that want to reduce the rampant counterfeiting of their products (Simone, 2006). Foreign industry associations operate throughout the country and in many industries despite the fact that Chinese law does not recognize their existence. Although they are officially illegal, the government agencies with which they interact typically welcome their existence as a centralized point of contact between themselves and business.

On top of these formal groups, MNCs also draw on the expertise of other foreign intermediaries with extensive experience at interacting with the government. Several global lobbying and public relations firms have extensive practices in China, including APCO, Ogilvy, Burson-Marsteller, and Hill & Knowlton.[11] Many of the 100-plus international law firms with offices in China regularly advocate for legal and regulatory changes in their communications with Chinese officials. They do so in the name of promoting rule of law, but they in effect are lobbying on behalf of their MNC clients.

When direct representations or associations are inadequate, foreign companies turn to their home governments to pressure the Chinese government on their behalf. They may use official channels to present the firms' positions to the highest authorities, threaten the government with sanctions or a WTO case, or use their own network of trusted relationships with Chinese officials to make their point. U.S.-based telecom semiconductor maker Qualcomm received a license to market its code division multiple-access (CDMA) technology for cellular phones in China in 1999 because the company's chairman, Irwin Jacobs, was a large contributor to the Democratic Party and a friend of American President Bill Clinton. The Clinton administration made Qualcomm's license a mandatory requirement for China's entry into the WTO (Interview 2005.ST12). In fact, the U.S. government's negotiating position on a whole range of issues related to China's WTO accession was shaped by American company lobbying. And since China's entry, MNCs have led the way in pushing the United States and the European Union to focus on those aspects of China's compliance record most vital to their interests.[12]

As significant as the above paths to the government are, MNCs and their local Chinese business partners also cooperate on government affairs activities when issues of common concern arise. The depth of cooperation varies. Joint venture partners have been the most likely to use a united approach, whereas foreign and Chinese companies who do business with each other are more likely to either engage in some sort of consultation and then act separately or engage in coincidental parallel activity toward the same end. Joint venture partners are also the most likely to focus on a full range of issues, from market licenses and loans to industrial policies. In the past decade, foreign companies have also begun to join Chinese industry associations as a means to keep up-to-date on policy news and have a cooperative, nonconfrontational setting in which to engage the local industry colleagues and officials. For example, Microsoft is a member of four foreign-based associations that operate in China (the American Chamber of Commerce in Beijing, the US-China Business Council, the U.S. Information Technology Office, and the Business Software Alliance), and it is also a member of at least four domestic associations (the Chinese Association for Enterprises with Foreign Investment, the China Software Industry Association, the Beijing Software Industry Association, and the China Software Alliance). Foreign firms also arrange informal gatherings for companies in an industry. In the late 1990s, for instance, Hewlett-Packard's Beijing office hosted a monthly "salon" that brought together local and foreign information technology companies to discuss policy issues with each other and industry officials (Interview s64).

Just as when acting alone or in concert with other MNCs, TPAs use a range of strategies. They make substantive arguments for certain policies, bring officials onto their payrolls, and engage in philanthropy, for example, by donating to flood relief efforts. From the MNC's perspective, one of the key resources of their local allies is their official contacts. In some instances, the executives of their Chinese allies themselves hold a government rank and are senior members of the Communist Party. The local partners benefit from the MNC's access that comes from being a global industry leader and hence are endowed with a certain authority to speak on policy issues.

When acting alone, in concert with other foreign firms, or through their home governments, multinationals have achieved policy successes in China. However, having Chinese allies has substantially increased their chances of changing regulations to suit their interests. When foreign companies have economically important and politically powerful Chinese firms on their side, it has been difficult for the Chinese government to adopt blatantly protectionist economic policies, because such regulations would hurt the Chinese partners as much as they would the foreign targets.

Recent TPAs in Action

To better illustrate the evolution of TPAs in China, below are analyses of three recent policy debates. Because Chinese firms were integrated into global business networks, the MNCs did not face a united front of Chinese opposition but instead had local allies who lobbied on the same side. Chinese leaders have long boasted of pitting foreigners against each other to keep them at bay, what in imperial times was called "using barbarians to counter [other] barbarians." It seems that multinationals have been able to turn this axiom on its head, using their Chinese allies against other Chinese interests.

Technical Standards

Since the late 1990s, the Chinese government has strongly advocated that Chinese firms craft unique technical standards for information technology products as a way to escape paying high royalty fees and move up the value-added ladder to become industry leaders. Working in government-sponsored technical committees, Chinese firms have drafted standards for, among other things, video players, digital television, third-generation cellular telephony, and broadband wireless local area networks (Suttmeier, Yao, & Tan, 2006). Despite the efforts of numerous agencies and thousands of people, China has yet to achieve any substantial successes. Whenever the Chinese government has endorsed a unique Chinese standard, foreign companies and their Chinese partners have successfully lobbied against such moves. The only information technology standards in China that have any chance of success have been those that include significant foreign involvement and cooperation.

China's first high-tech standards war broke out in 1998 when competing coalitions, composed of both Chinese and foreign firms, pushed alternate standards for video compact disc players (Kennedy, 2005a, pp. 119-125). In a fight reminiscent of the Betamax-versus-VHS videocassette recorders war of the late 1970s, one group advocated what it called the Super VCD format. However, another group of Chinese and foreign companies developed its own China Video Disc (CVD) standard. When the Ministry of Information Industry (MII) appeared ready to endorse the Super VCD standard, the CVD group's largest and most politically connected Chinese companies aggressively challenged the decision, which they claimed would unfairly constitute unnecessary intervention in the market. Persuaded by their arguments, the government forced the committee to revise the standard to encompass both groups' formats. As a result, video players based on both standards were allowed to be sold without any obstacles. The foreign firms, which also separately made their case before the government, owed their continued market access to their Chinese allies.

In perhaps the most economically consequential case, the Chinese government has promoted the drafting and implementation of a Chinese standard for third-generation cellular telephony known as time division–synchronous CDMA (TD-SCDMA). Approved as an international standard in 2000, Chinese companies have since been developing handsets and network equipment, and a TD-SCDMA network is almost technically ready to begin operation. In spite of these impressive efforts, the Chinese government is also likely to permit networks based on the other two international third-generation cellular phone standards, wideband CDMA (WCDMA) and CDMA2000, promoted by European and American interests, respectively, to operate in China. Foreign producers such as Nokia, Ericcson, Qualcomm, and Motorola, as well as the U.S. government and the European Commission, have repeatedly pressed the Chinese government to adopt a more even-handed approach.

Just as important, though, have been the quiet but powerful voices from within China. Commercialization of TD-SCDMA would certainly be a boon to the patent holders of this technology, but it would not clearly benefit China's existing mobile network operators, China Mobile, China Telecom, and China Unicom, which run networks based on technology most compatible with the European and American standards. Nor does TD-SCDMA necessarily aid China's network equipment producers, such as Huawei and ZTE, each of which has extensive international business and is not interested in developing products solely for the Chinese market (TD-SCDMA has little chance of being adopted outside China). These views have been transmitted to the government at multiple levels. As a result, the Chinese government is unlikely to block the two foreign standards, and it has also permitted foreign companies to help develop and sell TD-SCDMA products (Li, 2004; Interviews 2005.ST10, 2005.ST12, 2005.ST20, 2005.ST29).

The same story line of the video players and cellular technology is playing out in numerous other cases. Whereas the earliest alliances were informal, foreign companies are increasingly joining Chinese standards consortia, allowing foreign parties more institutionalized access to shape these technologies in ways that benefit themselves and their Chinese partners (Kennedy, 2006).

Fair-Trade Disputes

Shared interests between MNC and Chinese industry are equally significant in determining the outcome of fair-trade disputes adjudicated in China. To join the WTO, China had to reduce or eliminate a wide variety of tariff and nontariff barriers. However, it was allowed to use various tools to protect domestic industry against unfair competition, such as antidumping and safeguard measures. Since adopting its own antidumping regulations in 1997, China has become the third-most active initiator of antidumping actions. Chinese firms that file these cases hope their government will find that foreigners are dumping their products in China to the detriment of Chinese industry and, consequently, institute severe antidumping tariffs that effectively block those products from the Chinese market. Because antidumping cases are adjudicated by the domestic applicant's home government, one would expect the domestic applicants to typically prevail. However, foreign firms have escaped sanctions in a surprising proportion of cases. Why? Not only do the foreign firms vigorously challenge the investigations, but more important, their Chinese customers, who benefit from importing high-quality goods at relatively low prices, challenge the charges as well. When the Chinese partners are economically powerful and take an interest in the case, the foreigner defendants typically do well.

In China's first antidumping case initiated in 1997, Chinese newsprint companies accused competitors from Canada, South Korea, and the United States of dumping newsprint in China. Their fate was sealed by two circumstances. Newsprint is a basic commodity easily produced by Chinese companies at a quality equal to that by the foreign defendants, and hence, Chinese users, newspaper publishers, had no particular need to import newsprint. Moreover, China's newspapers are typically run by politically conservative editors who are unlikely to directly challenge Chinese trade policy. In 1999, the Chinese government ruled definitively against the firms from the three countries, with tariffs raised up to a maximum of 78%.

A stark contrast can be seen in the 1999 stainless steel case filed against Japanese and South Korea producers. Although the Chinese applicants and their supporters included some of China's most powerful steel companies (including Baoshan Steel, which acquired one of the Chinese applicants while the case unfolded), the defendants escaped with a slap on the wrist. In late 2000, they were formally hit with high antidumping tariffs, but in reality, they were given numerous exemptions to these tariffs, which essentially meant no penalty. The primary reason for their victory was the vociferous lobbying by their Chinese customers, some of China's largest automobile and consumer appliance producers. Both industries depend heavily on high-quality foreign steel as inputs into products they export, the most profitable part of their businesses.

Repeated complaints by the defendants, their home governments, and most important, Chinese downstream industries resulted in the Chinese government's revising its antidumping laws in 2004, requiring the government to consider the broader interests of the Chinese economy as a whole when reaching a verdict (Kennedy, 2005b; Interviews 2005.1, 2005.2, 2005.6).

In the above antidumping cases, the MNC and local firms appear to have acted independently of each other. By contrast, when the Chinese government announced safeguard measures against foreign steelmakers in May 2002, the steel companies and their Chinese customers acted in concert, in part because they shared the same law firm. In dramatic hearings in September 2002, lawyers for the domestic oil-drilling industry argued that their clients needed to import equipment because local alternatives had previously resulted in the deaths of several workers. Partly as a result of such complaints, the Chinese safeguards were withdrawn (Norton & Almstedt, 2003; Interviews D17, D42, D46, D51).

Government Procurement Policy

The last issue that suggests the importance of transnational interests involves the policy area of government procurement. Since at least the year 2000, the Chinese government has promoted the adoption of regulations requiring that national and local government ministries and agencies purchase domestically produced software when there is a local alternative of equal quality to foreign alternatives. Foreign firms hold 80% to 90% of the Chinese software market (legal and pirated), and the government, with prodding from several Chinese software companies, adopted the policy in the hope it would resuscitate domestic firms. Such a policy was initially issued as a less authoritative "idea" by the MII, but it was adopted in a more authoritative regulation issued by the State Council, China's cabinet, in 2005, as well as by several provincial and city governments ("China Unveils," 2005; PRC State Council, 2000; Wu, 2002). Because China is not a signatory to the WTO's Agreement on Government Procurement, it is under no legal obligation to provide foreign businesses equal access to such sales.

Despite the greater national attention behind the policy, it has faced stiff resistance. It is not surprising that companies such as Microsoft, Oracle, and SAP, which would suffer under such a regimen, have fiercely criticized the regulations. They have argued, directly and via their industry associations and chambers of commerce, that the rules violate the WTO requirement of national treatment and that because they have so many employees in China and develop some of their software within the country (at least the Chinese-language versions), their software is not necessarily "foreign." But resistance has come from two other sources as well. Chinese software companies that write software applications for the Windows operating system platform do not wish to abandon Windows in favor of Linux. They have continued to cooperate with Microsoft and quietly complain about the domestic-purchase policies. Most users of software in the Chinese government also often balk at being forced to use domestic software. When they have purchased local software at government fiat, that software often sits unopened on their office shelves. Consequently, so far foreign software firms have still been able to sell their software to government agencies. In 2004, 75% of provincial government spending on software went toward foreign brands. In one widely reported case from late 2004, the Beijing municipal government at first ordered Microsoft software, then set aside the Microsoft order with locally made software, but then reversed itself again and bought the Microsoft product as it had originally intended (Dickie, 2005; "Open Governmental," 2005; Interviews s50, s52).

As a result of a confluence of interests, foreign software makers have suffered little from the government's buy-local program. Their main challenge remains rampant piracy. Although they have a common interest in protecting intellectual property rights with local software producers and have cooperated in contributing policy ideas to the government and constituency-building exercises (Kennedy, 2005a, pp. 151-155), the great majority of Chinese consumers and industry benefit from piracy. Facing such a broad array of groups that benefit from piracy, multinationals face a steep hill in reversing this trend any time soon, no matter how loudly they or their governments scream.

Conclusion

To understand why MNCs are effective in lobbying host governments, one cannot only narrowly consider the actions of the foreign companies themselves. Instead, it requires an appreciation of the broader economic and political context. In particular, shared interests with local industry substantially raise the likelihood that foreign industry will prevail. Multinational lobbying in China represents a critical case to demonstrate the validity of this perspective. If multinationals are able to find allies in a highly authoritarian political system where there are high pressures for domestic firms to remain united, the logic of transnational lobbying alliances most likely exists in more liberal political settings as well. At the same time, this study indicates that TPAs come in many shapes and sizes. They are not always public and highly coordinated. In some instances, because of political pressures or lack of knowledge about others' actions, MNCs and local companies act independently toward the same goal.

This study also demonstrates the importance of bridging the international-comparative divide in studies on government–business relations. Singular attention to MNCs leaves out critical information about their available political strategies and influence in a globalizing world. By considering the behavior of proliberal local companies, we have found another asset that MNCs have to counter their liabilities of foreignness.

Finally, this study provides a foundation for further research. Critical case studies identify outcomes in the least hospitable environment, and as such, the TPAs in China may tentatively be seen as the least developed of any in market economies. Two types of studies are now needed. The first could involve single-country analyses that systematically measure the frequency with which MNCs choose to engage in TPAs and the specific strategies the TPAs employ. The second would be an examination of TPAs in multiple countries, through either a survey of MNCs and local firms, or a detailed study of just one or two MNCs as they interact with local firms in several different polities. Such studies could help identify the relative importance of political, industry, and company characteristics in shaping TPAs. They would help identify not only when TPAs are used but also under what circumstances they are avoided. Economic complementarity creates incentives for firms to cooperate, but whether they act on this motivation is something that must be documented and not assumed. To do otherwise would be to ascribe to TPAs more weight than they deserve at this early stage of investigation.

Notes

1. Gomes-Casseres (1996) believes that business alliances, not individual firms, define industries, remarking, "In large constellations, every member will develop an allegiance to the group as a whole, and the group may be governed collectively" (p. 188).

2. The factors determining political cooperation are expansions of factors shaping political activity identified by Hillman, Keim, and Schuler (2004). The types of political action are a modification of Hillman (2003).

3. A large portion of the results of this research was presented in Kennedy (2005a). The current article differs by focusing on the MNC–local firm nexus and includes more recent interview data. Because of the sensitivity of the information obtained, interview sources must remain anonymous. To help the reader, where possible, the article provides general descriptors of the sources. To help this researcher distinguish between sources, interviews are coded in the citations.

4. The key current regulations governing associations are 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 October 25, 1998, is carried in *Fazhi ribao* (Legal Daily), November 4, 1998, p. 3.

5. O'Brien and Luehrmann (1998) reached the same conclusion about China's local people's congresses, which desired close relations with superior people's congresses to gain access those organizations' political clout.

6. To get around the ban, firms create an association that may in reality overlap with an existing government-initiated association, but they give it a distinctive name that suggests their association is narrower or broader in scope than the other association (Kennedy 2005a, pp. 40-44).

7. Mayhew (1974, 2001), 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.

8. For an example of illegal bribes by an American company, see "SEC May Charge" (2006).

9. MNCs are increasingly wary of depending on one or two staffers for developing good government connections, because if their government affairs employees depart the firm, their good connections would leave with them (Interview 2005.21).

10. The United States has five separate chambers in Beijing, Shanghai, Guangzhou, Chengdu, and Tianjin. The US-China Business Council, an association with more than 250 members, has operated in China since the early 1980s (Interviews g17, g21, g22, g36).

11. Like individual MNCs, foreign public affairs firms hire former Chinese officials. One prominent agency recently had seven former officials on its staff (Interview g19).

12. Recent examples include demands for reform of China's currency and textile regimes (Balls & Beattie, 2005; Hitt, 2005; Overmyer, 2006).

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