How Business Influences Government Policy in China

Yongqiang Gao, Huazhong University of Science and Technology
Zhilong Tian, Huazhong University of Science and Technology

Businesses' participation in the political process is the continual focus of corporate political action (CPA) research. There is an extensive literature on the topic, including attempts to explain the determinants of firms' participation in political activities (e.g. Bodewyn & Brewer, 1994; Epstein, 1969; Getz, 1997; Hillman & Keim, 1995; Keim & Zeithaml, 1986; Mahon, 1989; Marcus, Kaufman & Beam, 1987; Mitnick, 1993; Salamon & Siegfried, 1977; Shaffer, 1995; Wood, 1986; etc.), analyses of whether businesses gain economic benefits from their political activities or whether CPA impedes competition within a given industry (e.g. Dean, Vryza & Fryxell, 1998; Freidreich & Waterman, 1983; Grenzke, 1989; Hall & Wayman, 1990; Romer & Snyder, 1994; etc.), explorations of the ethics of CPA (e.g. Christensen, 1997; Hamilton & Hoch, 1997; Hoch & Hamilton, 1994; Weber, 1997; etc.), investigations of the influence of PACs and campaign contributions (e.g. Craig, 1997; Levitt, 1994; Milco, 1998; etc.), applications of the income-cost framework to CPA decisions (e.g. Andres, 1985; Boies, 1989; Getz, 1989; Humphries, 1990; Lenway & Rehbein, 1991; Martin, 1995; Masters and Keim, 1985; McKeown, 1994; Schuler, 1996; Zardkoohi, 1995; etc.), and so on.

Recently, Cole (2000) studied the channels through which interest groups pursue the U.S. President.

However, studies of CPA in China have been rare. We recently reviewed the existing Chinese literature on "political action/behavior," "government-business relations," and "corporate action/behavior," and found that very little focuses on CPA, to say nothing of the research on the subject.

Given the political and economic differences between China and the west, Chinese firms face a unique set of choices in pursuing close relationships with government bureaus. For example, China's single party reign, distinct from western bipartisan or multipartisan systems, precludes political campaigns and therefore campaign contributions. Business practices in China are also quite different from those in the west, a condition determined by cultural differences as much as anything. In China, how to deal with government is always a taboo or at least secret thing that is not talked about publicly, even though firms often deal with government.

This article attempts to discover how a Chinese business can influence government decision-making. The following section briefly reviews the approaches to this process in the west. Section three compares China's culture and political/economic system with those of the west, especially with that of America. Section four presents, in detail, the approaches Chinese firms use to influence the government's policy decision-making. Section five discusses how a company can build a close relationship with government bureaus, and section six analyzes existing and potential problems in the participation of business in politics. Finally, a brief conclusion is given with some suggestions for further studies.

Western Business Approaches to Influencing Government Policy

Academic studies of business participation in politics can be traced back, at least, to Arther Bentel in 1908. His famous work Process of Government discussed in detail the influence of interest groups on politics, a theme picked up by many scholars since. More

Abstract: Although the Chinese corporate sector is deeply involved in the political process, there has been very little research on the topic so far. This article tries to identify the approaches by which Chinese firms influence government policy decision-making, in order to maintain a favorable business environment. Our analysis indicates that, due to the differences in culture and political and economic systems, there are correspondingly great differences in approaches to political participation in China and the west. For China, the participation of business in the policy process has led to corruption and other serious problems.

Ding / An Informal Institutional Analysis of Policy Implementation Hindrances in China

55
recently Getz (1983) identified seven tactics of CPA, namely lobbying, reporting research results, reporting survey results, testimony, legal actions, personal service, and constituency building. Hillman and Hitt (1999) divided corporate political strategies into three categories: information strategy, financial incentive strategy and constituency building strategy. Scholars have examined numerous other tactics in this process, such as contributions to politicians or parties, speaking honoraria, paid travel, grassroots mobilization, advocacy advertising, public relations, press conferences and political education programs, etc. Davis (1998), for instance, focused mainly on CEO testifying and direct lobbying.

There is also a great deal of scholarship on the methods of political influence employed by groups or individuals outside of business. Breton (1974) discussed the ways through which citizens take part in politics. These include voting, joining interest groups, lobbying, participating in a small group’s area, financial contributions, and becoming an official candidate. Cole (2000) analyzed the channels interest groups use to pursue the President, such as making use of White House staff, the first lady, and the President’s friends and relatives.

The term “approaches” used in this paper is similar to strategies or tactics, but their scope is sometimes narrower, yet sometimes broader, than that of strategies. Here we define approaches as the means a firm uses to influence government decision-making. Therefore, approaches are means based on relations, money, constituency pressure, and social consensus. According to this definition, the approaches that western firms use to participate in politics can be categorized as lobbying and other communication activities (direct lobbying, PAC lobbying, providing research reports, junket congressmen, honoraria, paid travel, etc.), campaign contributions (direct contribution or PAC contribution), constituency building (constituency political education and mobilizing constituency pressure), social consensus (advocacy advertising or public image relations advertising), as well as commonwealth contributions (charity contributions, contributions to the arts, education, etc.), consulting and testifying.

It is worth noting that these approaches are dynamic. For example, concern that big companies could exercise undue political influence resulted in the Tillman Act of 1907 and the Corrupt Practices Act of 1925. The Corrupt Practices Act explicitly forbade business contributions to candidates. The Taft-Hartley Act of 1947 forbade Labor Unions from making political contributions. In 1974, the Supreme Court ruled that campaign funds provided by Labor Unions did not violate the Taft-Hartley Act, reasoning that campaign contributions are protected under free speech, and thereafter the constraints on campaign contributions from individuals, companies, and other interest groups were loosened. A maximum contribution constraint was maintained, which in turn prompted the rapid growth of corporate political action committees (PACs). Ever since, lobbying and campaign contribution through PACs have been the main approaches employed by western businesses to influence government policy decision-making, indeed disproportionately so. As Berman (2001) and Vogel (1996) have observed, the bulk of CPA research in recent decades has focused on PACs, lobbying, and campaign contributions, with only sporadic literature examining constituency building, commonwealth contributions, testifying, or public protest.

Comparison of the Political and Economic Systems in China and the West

China’s culture, as much as its political and economic systems, bears stark contrasts to those of western nations, especially the United States. First, American political culture is marked by two strands of liberalism. The first, dictated by the ideas of John Locke, is known appropriately as Lockeanism; the other is based on the writings of John Stuart Mill and John Dewey, and is known as instrumentalism. The soul of Lockeanism lies in its emphasis on individualism, private property, and limited government. While instrumentalism asserts that the source of government power is not based on any abstract principle, rather it lies in the political process itself, through which any viewpoint can be expressed fully, any idea can be addressed fully, and any thought can be discussed fully. Obviously, the goal of instrumentalist thought is to develop and improve the democratic process, so as to insure everyone the chance to take part in various “political games” (Pan Zhixing & Wang Enming, 1999). Liberal thought is embodied in the U.S. constitution. The first amendment stipulates that people have the right to free speech, free press, peaceful gathering, and appeal to the government. Under the protection of the U.S. constitution and the culture of American liberalism, individuals and interest groups participate in politics extensively.

Chinese political culture centers around the idea of imperial power, creating a culture of power worship. People in China tend to think of politics as the politicians’ business, and that it has nothing to do with the public. Clearly, in such a political culture, there is very little public involvement in the political process.

Second, as far as concerns the political system, the U.S. has a structure for the separation of the three
powers (i.e. the legislative, executive and judicial powers), so that these three branches of government are independent and maintain a dynamic balance between each other. The "separation of powers" political system is an embodiment of the idea of limited government, so prominent in American political culture, and the application of Montesquieu's principle. Montesquieu believed that, in order to prevent the abuse of power, it is necessary to use power to inhibit power. Therefore, he conceived of a government whose functions were divided into the legislative, executive, and judicial, each institution independent from the others and thus creating a balance (Ying Hong, 1993). Having adopted this principle, there exist in the U.S. multiple centers of political power.

China, on the other hand, is a nation of the "combination of legislative and executive powers." The National People's Congress (NPC) and its Standing Committee are the supreme national power institutions. The national executive institution (the State Council) and the national judicial institution (the Supreme People's Court and Supreme People's Procuratorate) are subject to the National People's Congress. As a result, the balancing mechanism in China is relatively weak (Xu Jieliang, 1995). China's political system adopted the thought of the Paris Commune. When it was formed in 1871, the Paris Commune was the legislative organ, as well as the executive.

Third, China and America have very different systemic political structures, both in terms of party and congress. America has a typical bipartite system, with the Democratic and Republican parties competing for presidency and seats in the Senate and House. Furious campaigning is a remarkable characteristic in America politics. In order to win an election, candidates have to raise abundant money. It is the reason we call American elections "money politics." Companies become important supporters of political candidates, because of their great fundraising power. Thus, money has captured politics. China has a single party system. There is no competition between different parties, and China's elections are a kind of indirect election, meaning the president or congressmen are elected by constituency. As a result, China is free of the campaigns so crucial to the American political process.

The American congress consists of two houses, the Senate and the House of Representatives. Senators and representatives are full-time officials, and when elected a candidate must give up his or her previous job. However, the NPC is undivided. To be a congressman in China is a part-time job, and the seats are filled by citizens from every walk of life, including businessmen. The number of congressmen from the business sector has increased rapidly in recent years, highlighting a key difference between the countries: in China, businessmen can participate in politics directly as congressmen. The potential hazard is obvious, that businessmen in the congress will act in their self-interest at the expense of general social welfare.

Finally, there are tremendous differences between the economic systems in China and the west. China had a highly centralized planning economy before 1980. Business production and reproduction activities were decided by the government. The government not only determined what was to be produced, how to produce and how much to produce, but also made decisions regarding distribution and consumption. In such system, government regulates all fields and all activities of the economy, uses planning as a substitute for market mechanism, and uses administrative distribution to substitute for market choices. Under a planned economy system, the whole nation is just like a huge plant, in which business is only a workshop. Politics and business are intrinsically tied; indeed, business is a function of government. Even as the Chinese government propels steadily in reform, transforming the planned economy to a market economy, government-business relations remain disordered. For one thing, too many enterprises are still state-owned, even though they can be privatized. Another aspect is that the government intervenes in businesses too much, and in turn businesses appeal to the government whenever they face problems. In a typical market economy, however, the borderline between government and business is relatively clear. Government can't intervene in business of its own accord, and business cannot randomly appeal to the government.

The Approaches Used by Chinese Businesses to Influence Government Policy Decision-making

Owing to the differences in culture and political and economic systems, business's participation in politics is strikingly different in China than in the west. In the west, lobbying and campaign contribution are the most common and important approaches. In China, however, the direct participation of business congressmen and relationship-based lobbying are the most important approaches. The campaign contributions, constituency building, social consensus building, testifying, and public protest employed by western businesses do not exist in China. Meanwhile, Chinese businessmen's participation in politics directly as congressmen is absent from western political life. Moreover, although China and the west
both have lobbying, there are some key differences in practice. Chinese lobbying is based on the broad relationship network, and the idea of relationships is crucial to the lobbying process. So, the only approaches shared by China and the west are commonwealth contribution and consultation. Finally, there are many illegal approaches in China, resulting in widespread corruption. Now, we turn to discuss the approaches that Chinese firms use to influence government policy decision-making.

**Business congressmen's direct participation in politics**

In the west, corporations' influence on congressmen has always been one of the focal points of CPA scholarship, because the relevant legislations governing business activities are nearly all passed by the parliament. There is a similar institution in China. The functions of China's NPC and western parliaments are the same, but there are crucial differences in their constitutions and working attributes.

Chinese Congressmen hold part-time jobs, and they come from every field and every stratum of the society. The leaders, CEOs, or presidents of some enterprises have already participated in politics directly as congressmen. Although they participate in politics nominally on the behalf of people, it is certain that they are pursuing self-interests. They are working to create a political environment favorable for their companies.

This hypothesis is verified by a recent investigation into the bills proposed by business congressmen (IMSM, 2002). Some of the bills are concerned with businesses' survival and development. These bills range from the repairing of businesses' physical environment (such as roads) and relieving businesses' social burdens, to the changing of businesses' administrative authority, etc. Certainly, in general, Chinese companies have difficulties proposing bills that serve overly “narrow” interests, because it is considered unethical and inappropriate for business congressmen to pursue these self-interests. Formally, congressmen, no matter where or what field they come from, should concern themselves only with “public interests,” since they act as the people's mouthpiece.

There is another top political body called the Chinese People's Political Consultative Conference (CPPCC), where business representatives can put forward their opinions or advice on legislation and policies, although they can't directly participate in the legislative formulation or the vote.

**Relationship-based lobbying**

Just as in the west, lobbying is a significant part of the political process in China, although you find nothing about these activities in any Chinese newspaper. There is no record of business's lobbying in the Chinese statistics system or almost any other government department. The only exception is the requirement that companies' offices located in Beijing register in the Administrative bureau for Industry and Commerce or Ministry of Civil Affairs. But it is well known that lobbying activities, or “gongguan” (meaning the use of government relationships to get things done and may be formally translated as “public relations”), are very common in China, even appearing in modern management theories.

Companies generally have relations with government bureaus even before “gongguan.” The purpose of “gongguan” is to reinforce these relations and “purchase” government policies. China had a highly centralized planned economy before 1980. Enterprises were an extension of the government, and acted as an executor of a national production plan. Business leaders enjoyed titles as government officials. This history of relationships between business and government bureaus has a very important impact on today's business practices. Although in recent years the central government has been carrying out drastic reforms to transform state-owned enterprises (SOEs), (such as the privatization of medium and small SOEs and the renovation of some large SOEs) the ties linking companies and government have not been substantially cut off. Moreover, China is a nation characterized by relation networks. Based on these relationships, Chinese extensively lobby the government, and so affect policy. A report recently stated that when the former National Development and Planning Commission set pricing regulations for pharmaceutical products in 2001, leaders of Ha Pharmaceutical Group in Helongjiang province went to Beijing immediately to employ “gongguan” (China Business, 2002).

A company also has the option of forming an alliance with other companies who share certain interests, through the Trade Associations. The practice of “gongguan” amounts to unfair competition for foreign and certain private companies. They have to spend a lot of time and money to build close relationships with the government. There are several ways to build these kinds of relations, which will be discussed in the next section. In general, business congressmen and relationship-based lobbying are the two most important, common and effective approaches used by Chinese enterprises to participate in politics.
Commonwealth contributions

Though campaign contributions, per se, do not exist in China, commonwealth contributions do play a role in business's influence on politics. Like charity and art contributions in the west, many Chinese companies contribute to the Hope Project (aimed at aiding children who are too poor to go to school), charity groups, the Red Cross, educational institutions, and so on. Although many of the recipients of these donations are officially nongovernmental institutions, functionally they are in fact semi-governmental, because the government encourages them and their activities, with active roles sometimes played by government officials. Companies can not only strengthen their public image through these contributions, but establish government contacts as well. The commonwealth contributions reflect companies' sense of social responsibility, which in turn can gain them government favors and trust.

Relief funds are one of the more popular recipients of these commonwealth contributions. China suffers natural disasters almost every year, especially the seasonal floods of the Yangtze River and summer and autumnal droughts in the North. The government has to spend significant fiscal revenue to relieve the people of these stricken areas. Because of the government's limited fiscal surplus, it must draw support from society, including business circles. It is said that Motorola Co. has contributed a great deal of money to these kinds of institutions and activities (from the website of Motorola China). For a multinational corporation, its commonwealth contributions and education support are very important avenues for developing a good relationship with the government.

Other legal approaches

Other approaches for businesses to legally participate in politics include acting as governmental economic consultants or other forms of consulting, actively taking part in government-favored projects, and reporting on relevant issues through the government's public relations departments (the economic coordinating office or even directly through municipal government officials). The approaches entailing reporting problems mentioned above are different from relation-based lobbying, because they only involve temporary problem feedback. These approaches are certainly not as efficient as others, because policy formulation is not determined by any single given leader. Temporary problem feedback doesn't involve businesses in the policy decision-making process, and, as a result, the interactions are short-lived. Lobbying, on the other hand, requires business personnel specialized in making contact with government bureaus, and offering the government research reports and addressing its position on different issues. Generally, it requires a fellowship between the government and the company before any lobbying occurs. Lobbying also requires the company to draft strategies designed to guide the targets, issues, and methods of lobbying.

Illegal approaches

It is not surprising that illegal approaches are often used by enterprises to influence government policy decision-making. These activities create corruption and have caught the public's attention in China. Some companies influence politics through bribes and other unscrupulous tactics. This phenomenon of widespread corruption has been discussed extensively elsewhere, and so this paper will not elaborate on those approaches.

How to Build a Good Relationship with the Chinese Government

There are a number of options open to businesses looking to establish strong relationships with the Chinese government, some of which aim at high ranking government officials and others at certain government bureaus.

The first approach to building a good relationship with the government is gift giving, a traditional and popular approach in China. However, the phenomenon of gift giving has been a cause for some concern, as it is often combined with bribery. Especially when there is a significant status discrepancy between the two parties. The Chinese regard gift giving from subordinates to superiors with skepticism and view at as a sort of fawning. So one must be cautious and tactful in their gift giving, so as to succeed in accruing favor but not raise public suspicion.

The second approach is to provide help to governmental officials. In the eyes of the general public, officials don't need any help from subordinates. They are far removed from the masses and are asked for help by others, rather than seeking help themselves. But in fact, everyone, regardless of their social status, wealth or importance, needs others' help at some time. To help government officials in need is to establish a strong foundation for governmental relations. The Chinese attach a great importance to helping those who once helped them, if they do not do so they are indebted. This sort of reciprocal assistance is a fundamental aspect of the Chinese character, and frequent frank contact and
communication will only strengthen the established relations.

The third approach to building a close relationship with government is commitment. Local governments are in competition for external investment and opportunities to develop commercial trade to stimulate regional development. This presents an excellent opportunity for companies to build a close relationship with local governments. From the governments’ perspective, they need investments to develop local economies and to advance manufacturing and management technologies. Such investment can create strong business-government relationships through joint ventures or other alliances.

The experience of Microsoft in China is an instructive example. When the corporation first came to China in the early 1990s, it refused to set up joint ventures with Chinese firms and only wanted to sell its products. As a result, its development in China was quite slow. Microsoft has since changed its development strategy, and has tried to mend this rift with the Chinese government by setting up numerous joint ventures. This example demonstrates that commitment is a significant approach to building close relations with the Chinese government (Tian Zhilong & Gao Yongqiang, forthcoming).

The fourth approach for establishing strong relations with the government is a tactical action. Businesses build relationships first with those who can exert influences on officials, such as their spouses, relatives and influential friends, then through these contacts they build close relationships with officials. This approach is emphasized and used commonly by companies in the west, as well as in China. One of the reasons for this approach is that the key officials are very cautious in dealing with companies and don’t want to give the public the impression that they are too connected to the business world. Another reason is that the officials are extremely busy, and the building of close relationships takes a lot of time. This tactic, however, has been known to produce corruption.

The fifth approach is to use various illegal means, such as money and sex, to bribe government officials. This phenomenon is discussed extensively in the existing literature on corruption, so we will not discuss it further here.

The Main Issues in Business’s Political Involvement in China

Internationally, the growth of governments’ interventions in business operations has forced businesses to participate in politics, in order to render a favorable political environment. The uncertainty of government policy formulation in China forces businesses to influence government policy decision-making through less direct approaches. Moreover, some of the existing approaches are highly problematic. Here, we will discuss the problems of the approaches themselves, and then analyze the obstructions to the approaches.

The first problem in the previously outlined approaches is the question of fairness and appropriateness of businessmen acting as congressmen. Let us first look at the question of appropriateness. It is unimaginable in the west to think of CEOs concurrently holding a congressional post. The existence of business congressman is a byproduct of the old highly-planned economy. At the time, companies were directly affiliated with the government. There was, therefore, no conflict between business interests and public interests. However, in or after the process of China’s transition from a planned economy to a market economy, it is no longer appropriate for businessman to participate in politics as congressman. For, surely now there is a discrepancy between business and public interests, and it is ludicrous for a self-interested businessman to act as the mouthpiece of the public.

Now we turn to the problem of fairness. Although it is legal at present for businessmen to participate in politics, there is a question is how to guarantee the fairness of this participation. If some companies have congressmen and others do not, some industries have congressmen and others do not, and most large companies have congressmen and most medium and small enterprises do not, then how are we to maintain fairness? One solution to both the appropriateness or fairness questions is to reform the NPC system, such as transforming congressmen into a full-time position, or prohibiting businessmen to act as congressmen.

The second question relating to business’s participation in politics is that of the process’s opacity. Because of certain aspects of traditional culture, there is a general distrust of business’s involvement in politics in China. Therefore, the process is usually indirect and hidden. A direct and serious consequence of this opacity is widespread corruption. Because it is an opaque process, it is very difficult and costly for the public to supervise, and lack of supervision inevitably leads to corruption. An effective solution to this corruption might be found in the institutionalization of the business participation process.

The third problem faced by businesses is the obstruction of political participation, that is to say the lack of appropriate and legal participating approaches. In the west, business’s participation in politics is safeguarded by laws. As an example, the first amendment of the U.S. constitution stipulates that
Congress must not formulate any laws that deprive people the right of peaceful gathering and appealing to the government because of injustice (Yuefei, 2001, p. 309). The Federal Lobbying Rule Act of 1946, the Lobbying Disclosure Act of 1995, and the independent federal justice system also together guarantee this right will not to be eroded. Moreover, America is a corporatist country, and businesses can participate in politics through various organizations, such as the U.S. Chamber of Commerce, U.S. Association of Manufacturers, the Roundtable Conference of Industrial Community, labor unions, trade associations, and other interest-based coalitions. However, in China business political participation is not guaranteed by any laws. Although Chinese law also stipulates that people have the right of peaceful gathering and some industries have formed trade associations, the level of sophistication of these organizations is far lower than in America. The number of organizations through which a company can influence government policy decision-making remains too small.

Second, in America and most other western countries, the president, senators, and congressmen come to office through direct elections by their constituencies. The business community plays an important role in fundraising and canvassing during election campaigns, thus ensuring that their business interests will be considered once their candidate(s) are in office. This kind of connection between business and government does not exist in China, because of its indirect elections. As a result, Chinese businesses turn to illicit approaches to influence politics.

Conclusions and Implications for Further Study

Our study finds that businesses in China, as in the west, participate extensively in politics. But due to the differences in culture and in political and economic systems, there are great differences in the approaches employed by companies to influence government decision-making. The main approaches used by western companies include forming PACs, campaign contributions, lobbying, charity contributions, constituency building, and imposing pressure on policy-makers. However, in China—with the situation characterized by our single party system, indirect election, part-time congressmen (some from the business sector), and the transition from a planned economy to a market economy—the main approaches for businesses to influence government decision-making are direct political involvement through business congressmen, lobbying based on personal relationships and an unbalanced power dynamic with business subordinate to government.

The approaches presently used in China result in a number of serious social problems. First, there is the issue of appropriateness and fairness related to business congressmen’s direct involvement in politics. Second, there is the problem of corruption made possible by the obstructions, indirectness and opacity of business’s relationship with government in China, as dictated by traditional Chinese culture.

Further research should focus each approach’s efficacy, and why and how different companies choose to employ the approaches that they do. Further studies may discuss the reform of the Chinese political system, such as electoral reform, constitutional reform, changing the nature and quality of congressmen’s work, and how reforms can be used to restrain corruption.

Yongqiang Gao is a candidate for Ph.D in the School of Management, Huazhong University of Science and Technology, Wuhan, Hubei, PRC. Post Code: 430074

Zhilong Tian is a professor major in marketing and strategic management, in the School of Management, Huazhong University of Science and Technology, Wuhan, Hubei, PRC.

Acknowledgements

The study is funded by the National Natural Science Foundation of China (NNSFC)(No. 70172032). The authors thank NNSFC for her generosity. The authors also thank the two anonymous reviewers for their good and helpful comments. But the responsibility of the paper is obviously exclusive to the authors.

References


IMSM (2002). An investigation to the Peoples Representative Conference of Hubei district of Wuhan city and Wuhan city, Hubei province of China, conducted IMSM, School of Management, HUST.


www.motorola.com.cn/about/commonwcal.asp