

## Conducting Government Affairs in China

### USCBC Survey Results

**US**-China Business Council (USCBC) member companies with operations in China have expressed heightened interest over the past year in improving their management of government affairs (alternatively known as “government relations”) in China. This interest prompted the USCBC to undertake a survey of its member companies to compare and contrast strategies, reporting structures, and methodologies for conducting government affairs in China. The results of the first part of the survey, which focused on the structure, priorities, and qualifications of US companies’ government affairs departments in China, follow.

Next, USCBC will conduct in-depth interviews with experienced practitioners to further analyze and report to members how US companies structure their government affairs operations in China.

### Summary

Thirty-five USCBC member companies in a wide range of industries participated in the survey, with most respondents having more than 15 years operating experience in China. The survey data reveal the following key points about how US companies manage government affairs in China:

- Though over three-quarters of respondents had been in China for more than 15 years, 52 percent of respondents had only established a government affairs function in the past five years.
- Seventy-two percent of respondents said that their government affairs offices were inadequately staffed.
- Formal government affairs training within companies is not widespread.
- Salary levels for government affairs staff are equivalent to other highly compensated managerial functions in sales, finance, and legal departments of US companies’ China operations. Salary levels for senior government affairs professionals in some companies appear to be approaching US levels.
- Desired qualifications for most government affairs positions include experience in the government affairs field, with secondary priority on previous work in US companies or in a PRC government agency.
- Such reliance on prior government affairs experience and the relative shortage of experienced government affairs professionals in China necessitates “poaching” from other multinational corporations.
- Though many companies want their government affairs staff to coordinate with other departments on key issues, survey data indicate this is happening only about half of the time.
- The top priorities for government affairs staff are to track and respond to government regulations and policy, followed by relationship development with national and provincial government bodies.
- Most companies place more importance on government affairs work at the central level than at the local level, even though approvals, licenses, and inspections are increasingly done at the local level.
- The PRC agencies with which survey respondents would most like to improve their company’s relations are the National Development and Reform Commission, Ministry of Commerce, and State Administration of Industry and Commerce.
- Fewer than half of respondents said that they always or sometimes leverage the strengths of their other government affairs offices in other countries to advance their priorities in China.

The full report of survey responses follows.

## Respondent Profile

Twenty-seven out of 35 respondents (77 percent) have operated in China for more than 15 years, and 71 percent of respondents have an in-country staff dedicated to managing that firm's government affairs (GA) practice (see Figures 1 and 2). Sixty percent of respondents are in manufacturing, 36 percent are in services, and the remaining respondents are in other sectors that have both manufacturing and service components in their China operations.

### GA as part of firm's China operations

For most respondents, the survey revealed that a dedicated government affairs function is relatively new. Of those with a separate government affairs function, slightly more than half had established that office only within the past five years (see Figure 3). This reflects the changing nature of China's operating environment, in which a formal government affairs function is increasingly important to the expansion of a firm's operations in China.

Only 16 percent of respondents have had a China-based government affairs function for more than 15 years. These companies are large multinational corporations that, with one exception, operate in the heavily regulated high-tech/information technology sector. Often in these industries, initial market access is contingent upon having staff who can manage government relations.

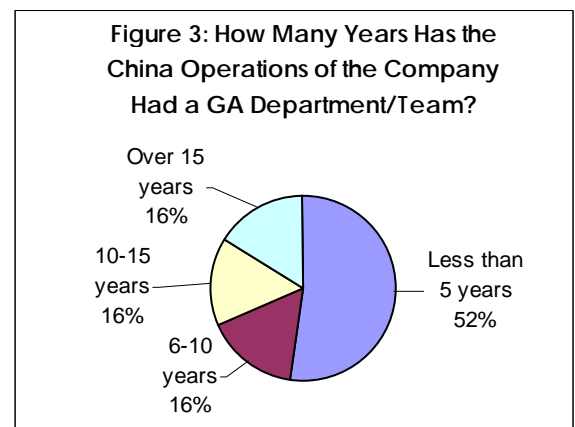
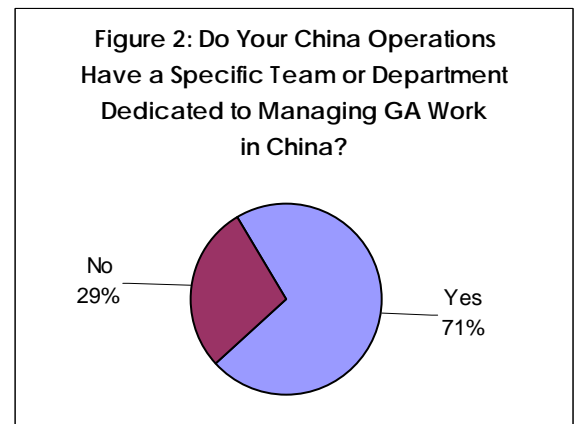
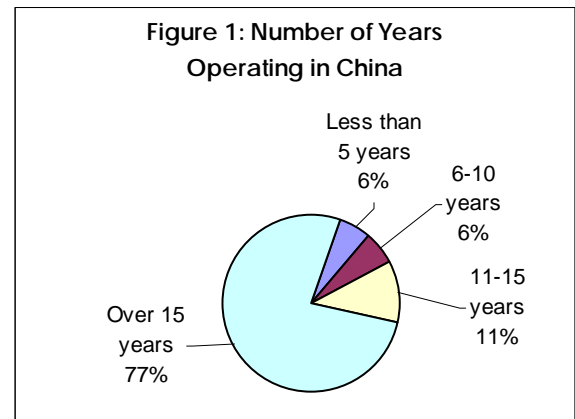
Interestingly, the nearly one-third of respondents that do not have a dedicated government affairs function consists of companies with relatively long experience in China. All of the respondents in this group have been in China for more than 10 years, and 80 percent of these companies have been in China for more than 15 years.

Of those that responded that they do not have a specific government affairs function in China, 60 percent said that their local senior executives manage government relations as part of their regular responsibilities (see Figure 4). Having a China-based senior executive manage government affairs is quite common—of those firms that currently have a dedicated government affairs office, 46 percent stated that the local chief representative or general manager handled government affairs prior to the formation of a separate government affairs function (see Figure

5). However, the growing importance of a strategic government affairs approach in China, rather than just building relationships, is probably changing the practice of having government affairs simply be one part of a general manager's responsibilities.

### Number of staff

Government affairs offices in China are generally small: Forty-four percent of respondents have three or fewer employees in their government affairs offices in China, while 28 percent of



respondents have between four and six dedicated staff working on government affairs (see Figure 6). Of course, some industries – retail or direct selling, for example – require large numbers of local staff to manage the regulatory compliance and relationship development aspects of expanding into various localities. Unsurprisingly, nearly three quarters of respondents said that their government affairs offices in China are inadequately staffed (see Figure 7).

### Location of GA function

Ninety-one percent of respondents with a dedicated government affairs function, have a government affairs office in Beijing. Of these, 55 percent also have government affairs offices in other cities such as Chengdu, Sichuan; Guangzhou, Guangdong; Shanghai; Tianjin; and Xi'an, Shaanxi. Outside of Beijing, the location of the government affairs function sometimes correlates with the location of the companies' China corporate headquarters or where companies have major manufacturing facilities and large numbers of employees, as the construction and operation of these facilities require close coordination with local and provincial authorities.

Just 36 percent of respondents had a government affairs office only in Beijing, and though many US companies have their China corporate offices in Shanghai, only three respondents had a government affairs office solely in Shanghai.

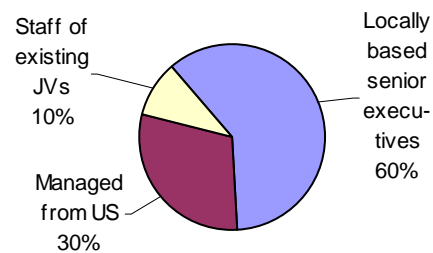
### Functions and Priorities

Companies have different approaches to government affairs – in terms of internal structure and external priorities and activity – depending upon the size of their investment, the degree to which they are regulated, the amount of business they have with the various parts of the PRC government, and their overall corporate philosophy toward shaping the government regulations and policies that affect how companies do business.

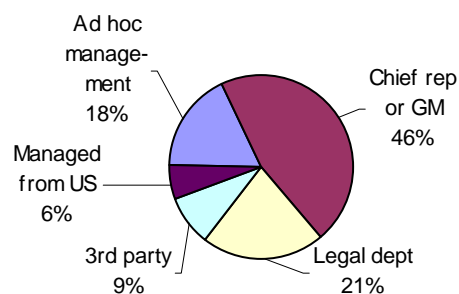
Nevertheless, a number of common tasks and objectives exist. Such common goals include

- Information gathering and advocacy on upcoming new laws and regulations;
- Relationship-building with relevant government agencies;
- Securing approvals of projects, required licenses, clearances of acquisitions, and other key company activities; and

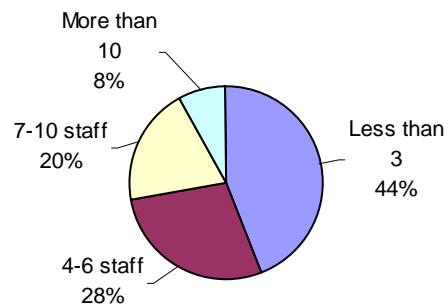
**Figure 4: If There Is No Dedicated GA Function, Who Manages Governmental Affairs?**



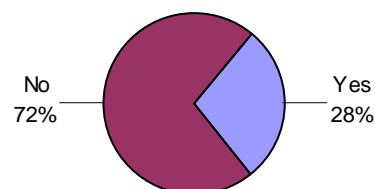
**Figure 5: Who Managed Government Affairs in China Prior to the Formation of a Separate GA Function?**

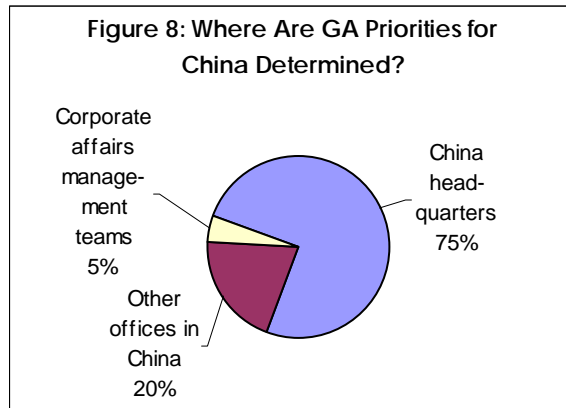


**Figure 6: Total Number of GA Staff in China**



**Figure 7: Is the Company's Current China-Based GA Component Adequately Staffed?**





- Securing meetings for senior company executives with officials.

For the most part, China corporate offices, as opposed to US head offices, determine the priorities and tasks on which the government affairs staff spends its time (see Figure 8).

Though given the option, no respondent said that the US corporate head office determined the government affairs priorities for their China operations.

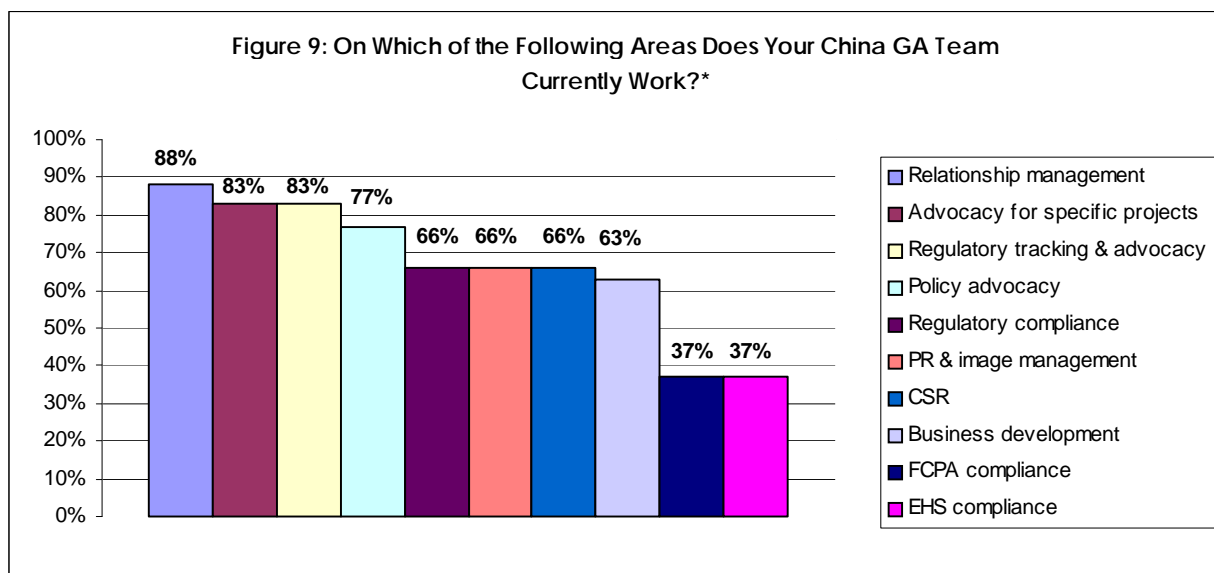
### Cross-departmental coordination

Though many companies want their government affairs staff to coordinate with other departments on key issues, survey data indicate this is happening only about half of the time. For managing crises, corporate social responsibility (CSR), and environment, health, and safety (EHS) programs, just over half of respondents said that their government affairs staff always coordinated

with other departments on these topics. Fifty-nine percent of respondents said that their government affairs staff always coordinates with other departments in managing corporate affairs. For business development and media relations, about one-third of companies said their government affairs staff always coordinates with other departments.

Companies also responded to questions about their government affairs offices' current responsibilities. Unsurprisingly, China-based government affairs offices most frequently work on relationship management; advocacy related to regulations, policies, and specific projects; and regulatory tracking. Government affairs staff work less frequently on tasks related to EHS and Foreign Corrupt Practices Act regulatory compliance (see Figure 9). Presumably, other departments within the organization, such as legal counsel, work on these issues more often than government affairs staff does.

Companies indicated that the top priority for their government affairs departments is collecting and analyzing information on upcoming government initiatives and policies (see Box 1). Relationship development at the national and provincial level is also clearly important for government affairs staff. Of note, however, is that government affairs staff place less importance on local (sub-provincial) relationship development. This is particularly striking, given that most companies are regulated, and often licensed, at the local level.



### Relationships with PRC regulators

When asked to list in order of priority the PRC ministries and agencies most important to the company's government affairs efforts, companies listed the Ministry of Commerce (MOFCOM), National Development and Reform Commission (NDRC), and State Administration of Industry and Commerce (SAIC) as the three most important (see Box 2). Although companies ranked the Administration for Quality Supervision, Inspection, and Quarantine (AQSIQ) in fourth place, this government agency may take on more importance as companies increasingly grapple with standards, conformity assessments, and product quality concerns.

As the rankings show, the respondents chose central government agencies as the top priority for their government affairs efforts. This focus on the central level may be a carryover from the days when the agencies at the central level were responsible for most of the approvals. Many approval and licensing processes, however, are now managed by local branches of central government agencies, which suggests that companies might have reasons to strengthen relationships more systematically with local regulators in the future. Relations with local government officials may become more important as companies pay greater attention to locally supervised issues such as environmental compliance, plant and product inspections, and labor bureau activity.

The focus on central government agencies also may reflect the fact that companies direct their government affairs efforts more toward influencing the regulatory and policy development process than toward enforcement and compliance, local functions typically overseen and managed by the relevant functional departments. Survey data seem to indicate that companies believe central level organizations are indeed still more important for government affairs efforts, perhaps suggesting that the central government still intervenes in industry somewhat regularly. Recent central government moves to protect pillar industries are an example of this.

Of note, companies ranked the Ministry of Finance (MOF) and State Administration of Taxation (SAT) quite low. These two agencies play leading roles in deciding what tax or investment incentives the government will offer, how those incentives will be structured, and to whom they will be available. Municipal and district tax authorities in particular are directly responsible for

tax collection and conducting audits, which companies state can be time-consuming and difficult.

The survey also asked companies to list, in order of priority, the PRC central government

#### Box 1: Ranking of Priority Activities for PRC Government Affairs Staff

1. Collecting and analyzing information on upcoming government initiatives and policies
2. National relationship development and management
3. Provincial relationship development and management
4. Acquiring necessary approvals or licenses
5. Local relationship development and management
6. Linking corporate strategy to various government policies
7. Setting up meetings for company management and visitors
8. Hosting or scheduling discussions on specific policy or regulatory issues
9. Coordinating participation in trade associations
10. Securing government support or partnerships for company CSR work and projects
11. Participating in seminars and training programs with working-level officials
12. Attending large functions or conventions featuring government officials
13. Attending small to mid-sized group meetings with other organizations

#### Box 2: Ranking of Agencies Most Important to PRC Government Affairs Efforts

1. MOFCOM - central
2. NDRC - central
3. SAIC - central
4. AQSIQ - central
5. MOFCOM - local
6. SAIC - local
7. AQSIQ - local
8. Customs - central
9. Customs - local
10. NDRC - local
11. MOF/ SAT - central
12. MOF/SAT - local

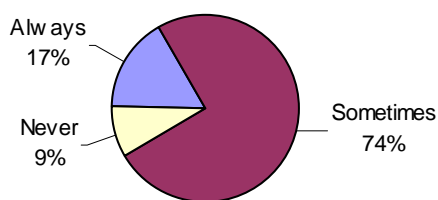
ministries and agencies with which the company would like to improve its government relations (see Box 3). Respondents listed NDRC, MOFCOM, and SAIC in the top slots, while key enforcement agencies like the General Administration of Customs, MOF, and SAT were perceived as less critical.

In both questions, the top-ranked central-level ministries or agencies are those responsible for developing and implementing policies and regulations that have a direct impact on foreign investment and business activity, regardless of industry. A few companies wrote in other ministries or agencies that are either important to

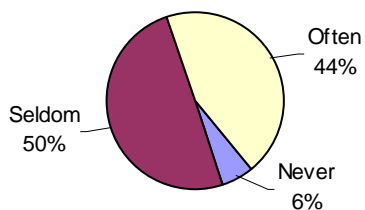
**Box 3: Ranking of Government Agencies with which Companies Would Like to Improve Their Relations**

1. NDRC
2. MOFCOM
3. SAIC
4. Customs
5. MOF/SAT
6. AQSIQ

**Figure 10: To What Degree Does the China GA Staff Engage with US Government Officials?**



**Figure 11: How Often Does the Company Leverage the Strength of GA Representatives in Other Geographies to Advance China-Specific Priorities?**



existing government affairs priorities or are with agencies with which the company wants to improve relations, focusing on the sector-specific agencies that affect their companies. A number of companies named either the Ministry of Information Industry – an agency responsible for regulating the information technology, high-tech, and communication industries and known for its lack of transparency – or the State Environmental Protection Administration – an agency that has increasingly flexed its muscles in recent years. Individual respondents noted three other industry-specific agencies with which they would like to improve their relationships: the Ministry of Health, China Insurance Regulatory Commission, and the General Administration of Civil Aviation of China.

**Engagement with other entities**

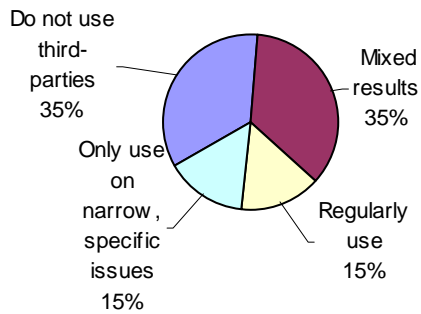
US government officials from a wide variety of agencies regularly travel to China and often meet with US company representatives on these visits. Ninety-one percent of respondents said that their China-based government affairs staff always or sometimes engaged with US government officials (see Figure 10).

The survey also explored whether companies are integrating and coordinating government affairs activities in China with their global activity. For example, China is increasingly becoming an important component of an emerging global regulatory structure, with competing standards and regulations from the two major economic blocks – the European Union and the United States – vying to win China’s allegiance or adoption. The survey asked companies how often they leveraged their government affairs strengths in other parts of the world to advance their China-specific priorities. Fewer than half of respondents said that they always or sometimes leverage the strengths of their other government affairs offices in other countries to advance their priorities in China (see Figure 11).

In addition, US companies often engage with other, nongovernmental actors, including influential think-tank and university experts and third-party service providers, both Chinese and foreign. Of note, 77 percent of respondents said that they sometimes engage with a think-tank or university in China to advocate a particular policy.

Companies also have the option of outsourcing various components of government affairs work to third-party service providers, either Chinese or foreign. Thirty-five percent of respondents said that they did not use such

**Figure 12: What Is the Effectiveness of Third-Party GA Service Providers?**



services, and an equal number said they have had a mixed experience doing so (see Figure 12). Fifteen percent of respondents said that they use third-party service providers regularly, and another 15 percent stated that they only outsourced government affairs work on narrowly defined, specific projects.

## Human Resources and GA Professionals

### A shortage of GA professionals leads to high salaries

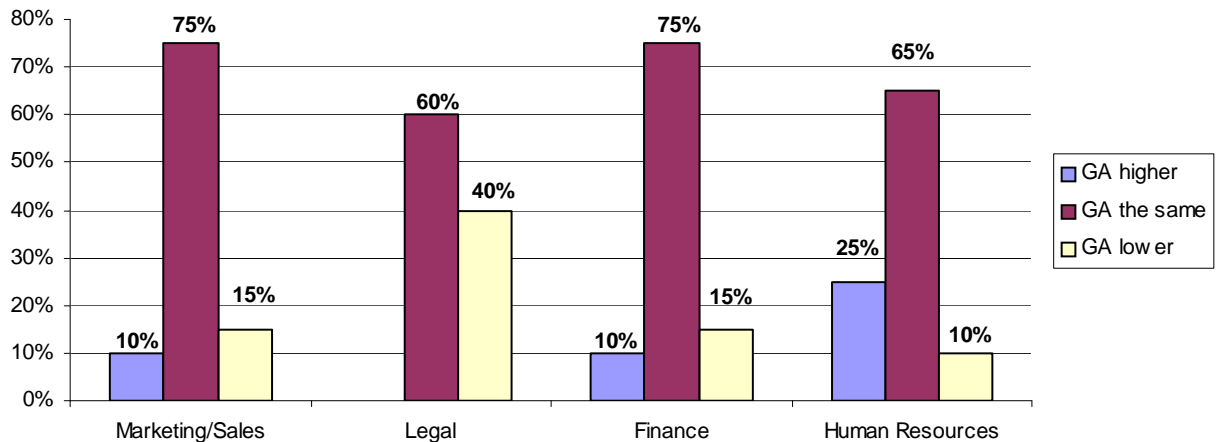
Companies seek qualified, experienced professionals who can advance company interests and manage a wide variety of government affairs tasks simultaneously. Such professionals are in short supply in China, where Western style government affairs has a relatively short history. Although some companies have been conducting

government affairs for over a decade, business activity and demand for qualified staff have increased dramatically. The university system also has not kept up with demand – despite the emergence of some graduate programs in public policy and related fields.

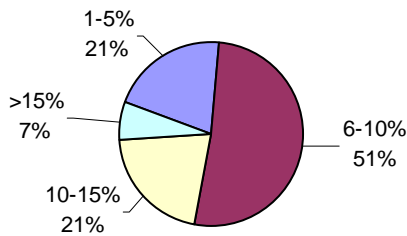
Salaries for various levels of government affairs positions are difficult to compare because of the different packages and locations of government affairs professionals. Of the nine companies that provided input on their companies' salary practices, most indicated that they paid senior-level government affairs staff in China anywhere between \$80,000 and \$200,000 annually, which may or may not include bonuses and allowances. Salaries for mid-level government affairs managers range from \$20,000 to \$100,000 annually, depending on benefits and bonuses, and those for entry-level government affairs assistants range from \$7,000 to \$14,000 annually. Of note is that while salaries for entry-level government affairs staff might still be considered inexpensive by US standards, at least in some cases salaries for senior-level government affairs staff appear to be approaching levels comparable to those of their counterparts in the United States. USCBC will follow up on this question in the interview phase of this survey project.

To put the search for government affairs professionals within the context of the overall shortage of top managerial talent in China, the survey asked respondents to compare their average salary levels with those in the finance, marketing and sales, human resources, and legal departments. About three-quarters of respondents

**Figure 13: Are Salaries for China-Based GA Staff, on Average, Lower than, About the Same as, or Higher than Salaries for Comparable Positions in Other Departments?**

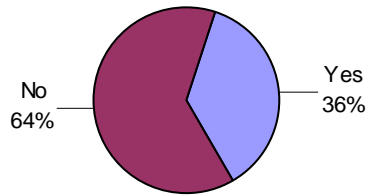


**Figure 14: Average Annual Salary Increase for China-Based GA Staff?**



said that they paid their China-based government affairs staff at roughly the same levels as they paid staff in other departments (see Figure 13). Overall, half of respondents noted that the average annual salary increase for government affairs staff was between 6 and 10 percent, which roughly correlates to the national average annual salary increase for all positions across a wide range of industries (see Figure 14). Some data suggest that average annual salary increases for top managerial talent across a range of sectors run as high as 30 percent.

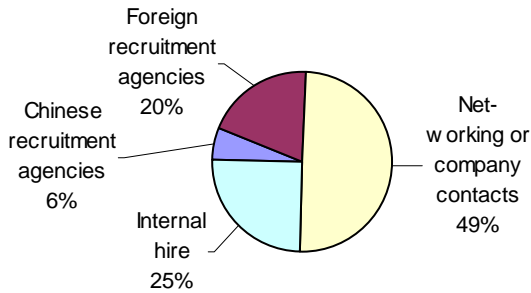
**Figure 15: Do You Hire Expatriates, Chinese Returnees, or Persons from Hong Kong or Taiwan to Conduct GA in China?**



### Hiring for the GA position

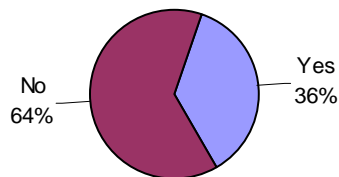
Sixty-four percent of respondents expressed a strong preference for local staff to work on government affairs, rather than expatriates, Chinese returnees, or persons from Hong Kong or Taiwan (see Figure 15). Ninety-six percent of respondents said that more than half of their China-based government affairs employees were locally hired PRC nationals.

**Figure 16: What Is the Most Effective Tool for Recruiting GA Staff in China?**



Almost half of respondents said the most effective tool for recruiting for government affairs positions was networking or through existing company contacts in China. The frequent movement of government affairs staff from one USCBC member company to another supports this finding. Twenty-five percent of respondents said that an internal transfer was the most effective means by which to fill a government affairs vacancy. The remaining 25 percent said recruitment agencies (Chinese or foreign) were most effective in filling government affairs positions (see Figure 16). Regardless of the method used, general experience indicates that finding a suitable government affairs person can take as long as 8 to 10 months.

**Figure 17: Does the Company Have a Training Program for China-Based GA Staff?**



### Qualifications

Respondents ranked in order of importance the qualifications or background an ideal candidate for different government affairs jobs would possess (see Table).

Unsurprisingly, US companies said that the number of years of experience a person had doing government affairs work was the most important criterion when selecting senior-level government affairs personnel, with 58 percent of respondents wanting senior-level government affairs staff to have more than 10 years' experience. Companies had similar requirements for mid-level government affairs personnel: Seventy-nine percent of respondents wanted this group of

**Table: Ranking of Preferred Qualifications for Various Government Affairs Positions**

Senior-Level Position	Mid-Level Position	Entry-Level Position
Experience in GA work	Experience in GA work	Work experience in a foreign company
Work experience in a Chinese government agency	Work experience in a foreign company	Education at a top Chinese university
Work experience in a foreign company	Familiarity with the industry	Familiarity with the industry
Familiarity with the industry	Education at a top Chinese university	Work experience in a Chinese government agency
Overseas education	Education specialization in public policy of business management	Experience in GA work

government affairs staff to have more than five years of experience in government affairs work. Even with entry-level government affairs staff, work experience was more important than education. US companies stated that work experience in a foreign company was the top criterion they look for when hiring for entry-level government affairs positions, with education at a top university being second. More than half of respondents said they wanted their entry-level government affairs staff to have between one and three years of work experience in this field.

Although given the option, no company chose work experience at a Chinese company as one of their top qualifications.

#### **Training programs for China-based GA staff**

Sixty-four percent of companies stated that they do not have a training program for government affairs staff in China (see Figure 17). That so many respondents lack a training program for their government affairs staff is somewhat surprising given that US companies have said they face a rapidly evolving and often opaque regulatory and policy environment requiring management by well-trained professionals (see *USCBC 2007 Member Priorities Survey Results*, [www.uschina.org/public/documents/2007/10/uscbc-member-survey-2007.pdf](http://www.uschina.org/public/documents/2007/10/uscbc-member-survey-2007.pdf)). While transparency in PRC regulatory and policymaking processes has increased in the three decades since foreign companies first started doing business in China, the progress has not been uniform across all sectors and government agencies. According to some companies, this inconsistency results in greater complexity and a need for staff who can analyze and navigate the various regulatory systems.

The programs run by the 36 percent of respondents that have government affairs training programs have similar setups: The programs

always involve training throughout the year at the China headquarters office, and occasionally involve local training in the city where the government affairs office is located. Half of respondents with government affairs training programs also include training with government affairs staff in the United States, either at corporate headquarters or in Washington, DC.

Many other functions in China, such as human resources, finance, and legal, have specialized or informal groups that regularly meet to share experiences and training materials. Government affairs professionals in China have not traditionally coordinated their individual training programs by sharing materials and experience. Establishing mechanisms to facilitate such efforts, or to institute roundtables involving senior government affairs professionals sharing best practices on a regular basis, could be useful approaches to developing the skills US companies want to see in their government affairs teams.

#### **For more information**

USCBC invites member companies to contact our Beijing, Shanghai, and Washington offices at any time for individual discussions on this important element of business in China.

- Beijing: Bob Poole (rpoole@uschina.org.cn)
- Shanghai: Godfrey Firth (gfirth@uschina.org.cn)
- Washington: Julie Walton (jwalton@uschina.org)

For additional resources on government affairs in China, see USCBC's previously completed overview *Government Affairs Hiring in China* ([www.uschina.org/public/documents/2007/03/ga-hiring-best-practices.html](http://www.uschina.org/public/documents/2007/03/ga-hiring-best-practices.html)).