



Kreab Gavin Anderson

Ensuring Business Success in China Through Government Relations

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Understanding the Chinese Government's Role In Political and Social Life Today

- Highly centralized tradition for politics and economic life
- Command / planned economy since 1949
- “Socialist market economy with Chinese characteristics” since 1979
- Strong legacy of management through administrative regulations rather than laws
- Policy environment changes quickly and not yet fully transparent
- High public expectation of government power
- Absence of functioning NGO community
- Media's role to check on government is underdeveloped
- Social media has emerged as a check on power, but subject to government control



Features of the Chinese government

- Key government agencies (central vs. local)
- Policy, legislation and regulation
- Procedures by which the government is run
- Special government/bureaucratic culture in China
- Bureaucratic pecking order and “super agencies” like the NDRC and SASAC
- Official personnel background: new generation vs. old guard



■ Evolution of the Chinese leadership / government



Background of evolving economic growth patterns

- **“Self-made in China” - 1949-1979:** closed up to the world and manufactured on its own on a rather rudimentary footing, but built its own industrial base.
- **“Made in China” - 1980-2009:** China opened up to the outside to become the “factory of the world” with an efficient, low-cost, and skilled labor pool.
- **“Innovated in China” - 2010-2039:** an open China in fast transformation, moving its industries up the value chain, taking ownership of its domestically developed technologies.



Fast changing policy environment

- **China’s efforts to build a new development model based on “innovation in China” in the next few decades leads to dramatic regulatory changes and “leap-frogging” policy making:**
 - (1) Encouraging “indigenous innovation”
 - (2) Asserting industrial policy in favor of domestic technologies
 - (3) Promoting and protecting domestic IP by drafting legislation and setting up its own set of standards
- **MNCs are now in a more challenging position as the dynamics with government are changing unfavorably.**



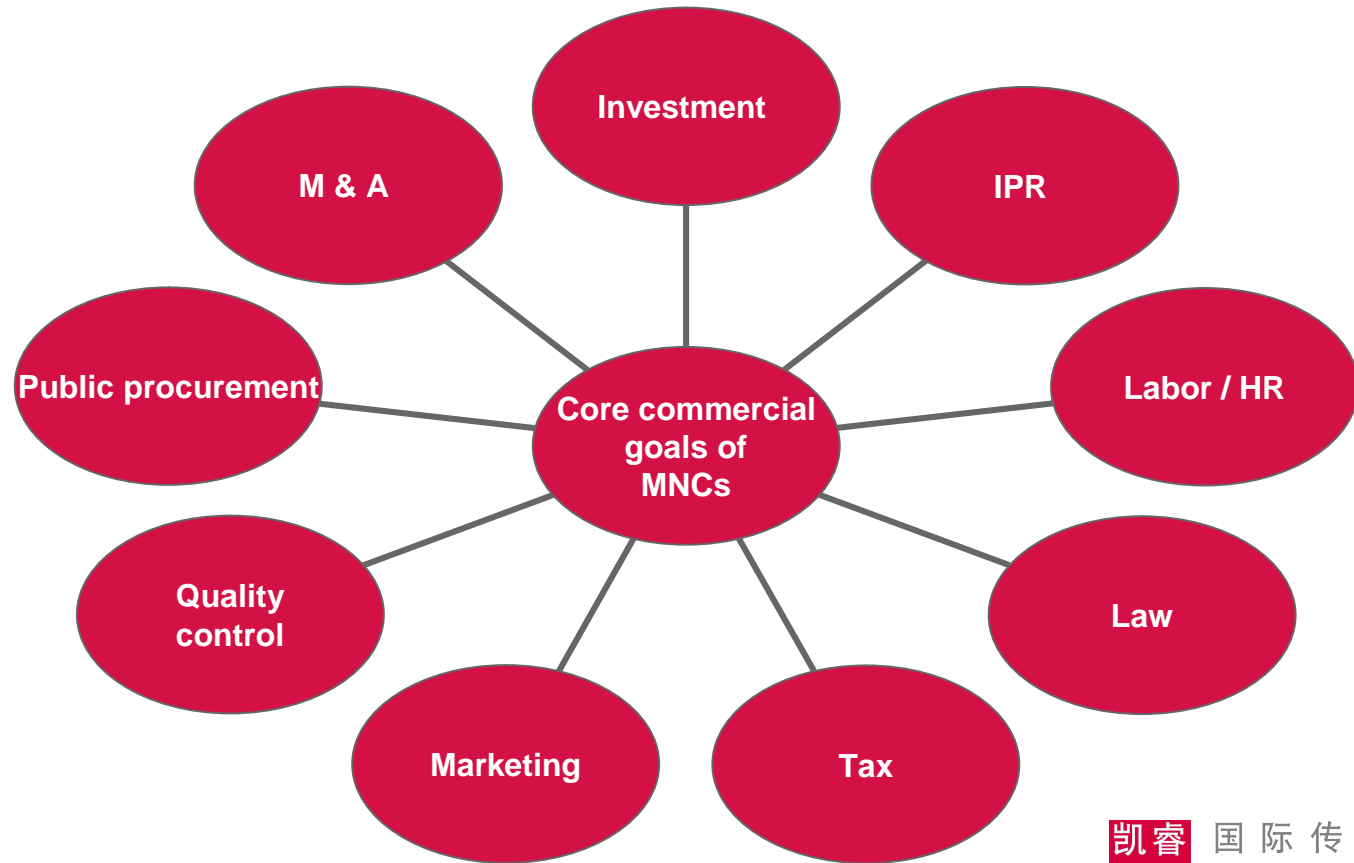
Key Challenges to MNCs

Top 6 business challenges in China as identified by AmCham White Paper (2008)

- Management-level HR constraints
- Inconsistent regulatory interpretation
- Unclear regulations
- Lack of transparency
- Bureaucracy
- IPR infringements



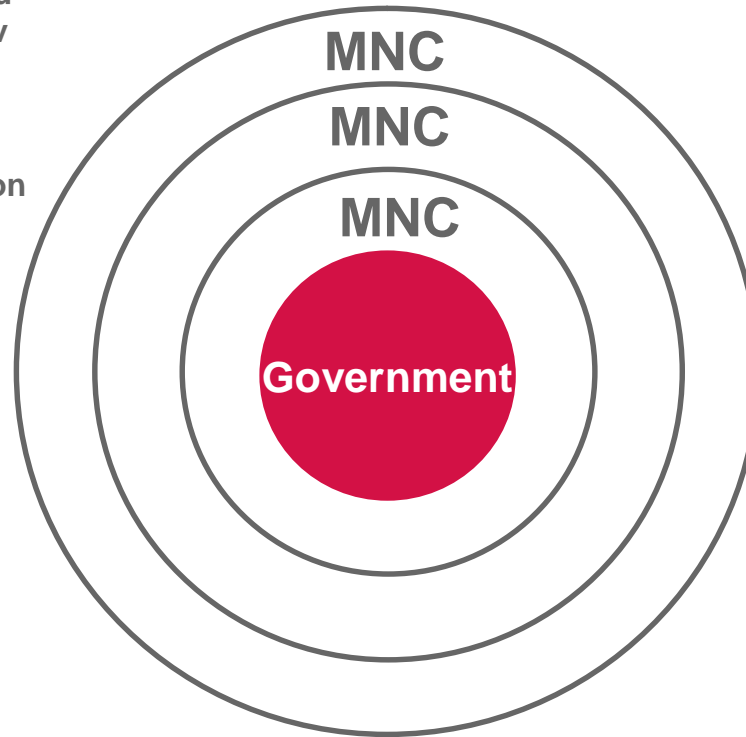
Government Relationships Play A Special Role In MNC Business Operation





Relationships between government and MNCs

Your position and distance from gov will largely determine the success of your business operation





Evolution of GR and PA in China

- **Phase I: Government relations involved identifying the right regulating agencies, investigating functions and internal structures, and forming necessary cooperative relations in order to understand the policy environment, smooth out obstacles in obtaining licensing and approval, reduce operation risks and build up sales.**
- **This phase was very much “guanxi”, or relationship, based.**



Evolution of GR and PA in China

- **Phase II: Government Affairs -** As China made a gradual shift toward a more law-based society, MNCs started to adopt a more Western type of approach to communicating with government and to assure their voice was heard in the policy and legislative process.
- **Typical cases involve foreign investment approvals, taxation issues, IP/counterfeiting and M&A.**
- **It is crucial to identify the right regulators and officials in order to develop and implement the right lobbying strategy.**



Evolution of GR and PA in China

- **Phase II (Cont'd) Provincial / Municipal focused government affairs:** in post-WTO China, much improvement has been made at the central level in rule of law, with a higher level of transparency in law making, national treatment and IPR.
- **However, there are still major problems resulting from local protectionism and inadequate law enforcement at local levels.**

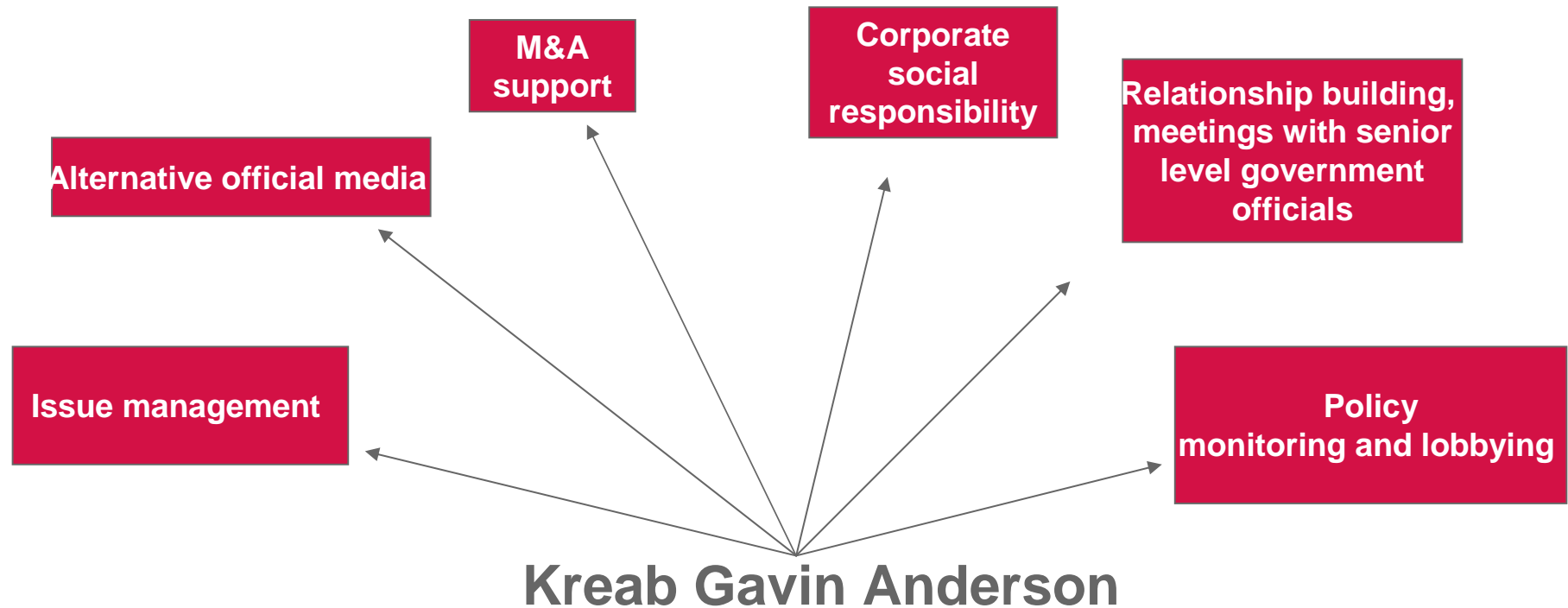


Evolution of GR and PA in China

- **Phase III: Public Affairs**
- **As China has matured, new dimensions of public and media relations have been employed to communicate more effectively with government and make the policy-making process more favorable for MNCs.**
- **MNCs started to employ more Western style public affairs tools to target multiple stakeholders to achieve government relations objectives.**
- **For instance, creating the right CSR program to win the trust of the government and public is an approach employed by many MNCs.**



Our GR and PA offerings





Our USP

- Success in GR and PA programs is measured by the level of acceptance of your case by your target audiences in the government.
- Our USP lies in our special ability to assist our clients to tell their corporate stories in the language of the Chinese government.



How to tell your story in gov't speak

(I) Drawing the right “roadmap”

- First, one needs a “roadmap” to identify all key players in influencing the decision-making process, which may include but not be limited to these below.
 - Central government agencies
 - Regulators
 - Provincial / municipal governments
 - Trade associations
 - Major SOEs
 - The official media

The next step is message development.



How to tell your story in gov't speak

(II) Developing the right message

- It is crucial to develop a set of messages that explain clearly how your company or project benefits the national and local economy.
- One should fully understand the macro picture of China's development needs for the industry and the national planning priorities that each agency is charged with. You then align your business strategy with such priorities in your key messaging, to show:
 - Benefits of investment including employment, taxes, technology transfer, R&D
 - Long-term commitment
 - Corporate Social Responsibility
 - Your appreciation of the policy agenda



How to tell your story in gov't speak

(III) Identifying and employing the right tools / channels to implement your GR/PA strategy and tell your story

1. **Direct outreach:** the company should develop close relations with officials on a working level and be in regular contact
2. **Senior executive visits:** meeting with senior government officials routinely (especially with the highest ranking official) is important
3. **Official media:** finding the right angle to promote key messages via the official media



Select cases (I)

- **Client and issues:**

an American specialty chemicals producer needing to understand and influence the standardization process that directly impacted their No. 1 product in China.

- **Our role:**

we conducted government relations across several ministries on pending changes for fuel standards. This ongoing work is central to the company's adjustment of its China strategy.

- **Results:**

our lobbying efforts helped positively influence the standardization process with the key message the company intended to get across to all major stakeholders and provided insights into the strategic direction the company should take in China.



Select cases (II)

- **Client and issue:**

a leading European firm in the railway sector needing communications support for public procurement projects in China.

- **Our role:**

we advised the firm on its communications and public affairs strategy for the highly competitive public procurement environment in China, helping it drive its messages into the Chinese government's alternative media channels and build its brand among key decision makers.

- **Results:**

Our efforts helped the company successfully secure public procurement projects across a range of rail sector activities, including main line railways and mass transit projects



Select cases (III)

- **Client and issue:**

A US based diversified financial services organization needing to secure a license in China

- **Our role:**

using a dual strategy of government affairs and media relations, we helped the firm to stand out in a highly competitive environment for government attention in its efforts to obtain an operating license

- **Result:**

Named “Best Insurer” in China and ranked on top of the approval list for licensing before they pulled out China



Select cases (IV)

- **Client and issues:**

a major international banking group with China litigation issues.

- **Our role:**

we have provided a program for government relations support at the municipal, provincial, and national levels, while simultaneously conducting discreet media relations work in the high-level government-linked press.

- **Results:**

Our program resulted in invaluable feedback to the bank on the judicial process in local courts, and also insight into how the case is perceived at the national regulatory level.

Q & A

Thank You !