

# RESEARCH BRIEF

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## The Political and Bureaucratic Influence of the Defense Industrial Lobby in the Chinese Policy Process

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**T**he relationship between China's defense industry and key actors involved in setting defense policy and rolling out defense procurement programs is a black box. China's ten large state-owned defense industry conglomerates have close ties with the state and military, but the channels through which these actors exercise influence are less clear. Using a policy network approach, the nature of the linkages and interactions between the defense industry and other actors in China's defense policy networks can be characterized by using a policy network approach. Within these networks, the defense industry wavers between a primary and secondary actor—a distinction that has widened over time through the restructuring of China's defense industry bureaucracy. The defense industry's position in the policy networks opens channels—formal and informal—through which it seeks to influence other actors in decision-making roles. These channels do not represent holes manipulated by the defense industry in lobbying the state and military, but instead mark the continued importance and interdependence of the defense industry in the defense procurement policy networks.

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## INTRODUCTION

The defense industrial complex has been one of the core pillars of China's state-dominated industrial economy ever since the beginning of the country's industrialization in the early 1950s. From the outside, the defense industry has all the attributes of being a powerful and influential player at the heart of China's political economy. Its core base covers half a dozen heavy industrial and technology sectors from shipbuilding to electronics. Its economic and technological strength is a cornerstone of China's national security and vital to the ability of the People's Liberation Army (PLA) to carry out its missions and responsibilities. If power comes from the barrel of a gun, as Mao Zedong once pointed out, then those that make the gun should also wield considerable power.

Despite its sprawling size and strategic importance, little is known about how the defense industry exercises its power and influence domestically and how much authority and influence it actually has. What are the channels of interaction between the defense industry and the Party, state, and military? How have the defense industry's standing and ties to the state, party, and military evolved over time? What have been the ramifications of far-reaching economic and bureaucratic reforms that have taken place since the post-1978 Open Door era, and especially since the late 1990s, for the defense industry?

To address these questions the brief focuses on the defense industry's ability to influence elite decision-making through lobbying during the early stages of the research, development, and acquisition (RDA) process. It begins by describing the interactions between China's defense industry and the state and military using a policy network framework. China's defense policy networks can then be used to understand the formal and informal linkages between these actors. It is through these link-

ages that the defense industry accesses lobbying channels to influence key actors and decisions.

The brief concludes that China's current defense industry is more distanced from key decision-makers than ever before. This does not negate the impact of the defense industry lobby on key defense policy decisions, however. As the defense industry has become more bureaucratically distant from elite leaders, it has expanded its use of lobbying channels whereby it can exercise similar influence and maintain the triangle of state-military-industry interdependence.

## CHINA'S DEFENSE INDUSTRIAL LOBBY AND POLICY NETWORKS

The Chinese defense industrial lobby is comprised of a stable of large, state-owned corporations that enjoy monopolistic control over the industrial sectors of their functional specialization. The nature of these firms' ties with the state and military establishment is more difficult to define, as few analytical models exist that can adequately capture the complex and non-transparent range of interactions. A policy network approach, however, provides the flexibility to characterize this complex network of actors and linkages, and, based on the type of characterizations, predict modes of interaction between the actors.

Broadly, a policy network describes a set of actors connected through formal and informal linkages in interdependent relationships and formed to resolve particular policy issues. Taking China's overall defense policy community of government, military, and industrial actors, multiple policy networks can be identified. Each contains a subset of actors—primary and secondary—focused on specific tasks, such as requirements formation, new system selection, technology platform selection, defense procurement oversight, and equipment acquisition.

The focus here is on the policy networks organized around the early stages of the RDA process, including new system selection, system technology platform selection, and the contract bidding process. Because these early stages are more likely to fall before the 'critical juncture' described by Tai Ming Cheung in this volume's introductory brief—the point at which actor decisions transition into self-reinforcing path-dependent trajectories—we expect to see higher levels of lobbying activity in these periods.

In some cases, the defense industry is formally included in these policy networks as a primary actor. In other cases, it must create informal channels whereby it gains access to the primary actors. Furthermore, bureaucratic restructuring or institutionalization of informal channels over time has led to changes in the defense industry's status as a primary or secondary actor. Regardless of the defense industry's position in the policy network, it is only by working within these networks and interacting with key individuals and organizations that the defense industry is able to exert influence and create an effective lobby.

## ATTRIBUTES AND CHANGES IN CHINA'S DEFENSE POLICY NETWORKS

China's defense policy networks have closed boundaries consisting of centrally-vetted actors from the state, military, and industry. This has allowed the participants in China's early-stage defense policy networks to remain relatively stable and few, although initiatives are underway to expand the number of actors in later stages of defense procurement by increasing non-state participation.

Identifying primary actors in the early-stage policy networks is straightforward. From the state, primary actors are the State Council, the Ministry of Industry and Information Technology (MIIT), and

the State Administration for Science, Technology, and Industry for National Defense (SASTIND, formerly the Commission for Science, Technology, and Industry for National Defense, or COSTIND). From the military, primary actors include the Central Military Commission (CMC), the General Armament Department (GAD), particularly the GAD Science and Technology Committee (GAD STC), and armament departments within the PLA Air Force, the PLA Navy, and the Second Artillery. From the defense industry, it is the large state-owned defense industrial corporations.

The defense industry's status has wavered between primary and secondary actor status, however. For example, prior to the formation of COSTIND in 1982, the defense industry was placed prominently as an actor in the military requirements formation and technology design policy networks. During this period, the Ministry of Aviation Industry's S&T Committee was charged with convening the layout design meeting for the J-10 fighter, and industry received no military end-user requirements prior to submitting designs for the aircraft, essentially allowing the defense industry to dictate the requirements.

The formation of COSTIND, its restructuring in 1998, and its later restructuring into SASTIND in 2008, however, lowered the status of the defense industry in these early-stage policy networks, revoking key responsibilities and distancing it from other primary actors.

Despite these changes, the relationship between the primary actors remains interdependent, although often only loosely so. Today, the dependence of the defense industry is clear, with the state and military leading military requirement formation and decisions to pursue new systems or technologies. The dependence of the state and military on the defense industry results from the need to match military requirements to industrial and technological capabilities, although the degree of this dependence

may shift if import options are available. The defense industry, regardless, maintains the majority of technological expertise that the state and military rely on, making it an integral part of early-stage RDA tasks. The PLA hopes to change this balance of expertise by increasing the quantity and quality of its in-house technical experts.

The linkages between the defense industry and China's state and military form a dense and complex web of interactions. Coordination within the policy networks is hierarchical, with the defense industry sitting at the bottom of the hierarchy and the State Council and CMC at the top. Many of these linkages are institutionalized, while others are less formal. Current institutionalized channels began as informal lobbying channels in many cases. For example, defense industry experts filling a large proportion of leadership positions in GAD STC expert groups is a trend that appears to be set.

Interactions within defense policy networks are influenced by rules of conduct, or "guiding principles." These guiding principles function as a background for interacting with other network actors and evaluating their actions, and strongly impact military RDA processes. In China's defense policy network, an atmosphere of eroded trust characterizes relations between the defense industry and the PLA. In general, the PLA expects opportunism by the defense industry. Secrecy often prevails in interactions between the state, military, and industry actors. Ultimately, while included in the policy networks, there appears to be no formal expectation of consultation with the defense industry in defense policy formation.

## LOBBYING CHANNELS OF CHINA'S DEFENSE INDUSTRY

The intermittent inclusion of the defense industry in the early-stage policy networks necessitates that the defense industry navigate multiple

channels to access the other primary actors in these networks. A formal channel indicates institutionalized inclusion of the defense industry in a policy network. An informal channel indicates the defense industry being placed as a secondary, although not necessarily unwanted, actor. The labelling of a channel as formal or informal does not appear to affect the efficacy of the lobbying effort. In fact, the inefficacy of the institutionalized channels often requires the defense industry to pursue more effective informal channels to reach policymakers and primary actors.

The following are the primary channels through which the defense industry exerts its influence, ordered roughly by level of efficacy.

### **Formal (Institutionalized) Channels**

#### *Cross-postings in GAD STC expert groups*

Cross-postings are one of the most direct avenues the defense industry uses to influence the defense innovation system. In addition to their positions in the defense industry, many experts hold separate, prestigious positions that provide added access to regulators and decision-makers. GAD STC expert groups form the expertise base to support STC decision-making and are involved in preliminary research to determine the PLA's future armament needs and directions.

Within the expert groups, defense industry representatives command a strong presence. Within the 58 identified expert groups, 48 percent have a leader or deputy leader connected with the defense industry, and 60 percent have at least one member from the defense industry. Decisions must still be approved by senior GAD and STC leadership, but defense industry participation has become an institutionalized part of this key group.

#### *Channeling through direct supervising departments*

The defense industry's direct supervising department is SASTIND,

which acts as the primary facilitator between the defense industry and key decision-makers in the state and military. For example, in the requirements and preparatory research stage, SASTIND collects S&T development strategies and key technology plans from each of the defense conglomerates for inclusion in discussions by the Leading Small Group, a body of which SASTIND is a member but the defense industry is not.

SASTIND also hosts the annual Defense S&T Industry Work Conference, which provides opportunities to connect with leaders from other departments. For example, prior to the 2008 restructuring of COSTIND, the vice premier responsible for industrial affairs regularly attended the meeting. Today, the State Council representative is replaced by the MIIT minister. The GAD director also attends.

#### *Participation in conferences and meetings*

In the absence of strong formal ties between the defense industry and the military, cross-mingling platforms such as meetings and conferences where military and civilian leaders come together become critical in forming new connections, providing input into decisions, and voicing issues important to the industry.

Perhaps the highest-level conference attended by the defense industry is the All-Army Armament Work Conference. Held approximately every 3–5 years, with the last meeting in December 2014, the purpose of the meeting is to review armament work over the past five-year plan and formulate armament development for the next five-year plan. Attendees are primarily military leaders, including the CMC chairman and all CMC members, and leaders from PLA regional commands. Heads of the ten defense conglomerates also attend.

Discussion conferences, which select technology for future projects or systems, occur much more regularly and are a critical venue for defense

industry participation. Cases such as the Second Generation Destroyer Program Feasibility and Review Discussion Meeting and the Tanker Project Discussion Forum seem to indicate that defense industry participants are frequent attendees at these meetings.

#### *Individual meetings with senior leaders*

Individual meetings with government officials take a variety of forms but highlight the importance of face-to-face contact with senior leaders. These meetings most commonly are initiated by the leader rather than the defense industry and often mark the successful outcome of other lobbying channels. In most instances, the official has already formed an opinion regarding an issue prior to the meeting, and the meeting chiefly serves as a confirmation or briefing.

#### *Defense industry associations*

Defense industry associations are established by the state and have strictly controlled membership. Often, they act as platforms for central leaders to push implementation of policies and regulations. Two leading defense industry associations are the China Association of the Peaceful Use of Military Technology (中国和平利用军工技术协会) and the National Defense Science and Technology Industrial Enterprise Management Association (国防科技工业企业管理协会).

#### *Informal Channels*

##### *Cross-posting as academicians*

Defense industry members who hold the title “Academician” are among the defense industry’s strongest assets. As the highest academic title in science, technology, and engineering in China, academicians of the Chinese Academy of Science and the Chinese Academy of Engineering are not only academic authorities and leading experts in their fields but also advisors and consultants to top leaders. Their expertise and opinions are well respected and sometimes figure promi-

nently in initiating projects and shaping policies.

#### *Representation in elite leadership*

Few direct connections exist between the defense industry and China’s elite leadership. On the Politburo level, there has never been a current or former member from the defense industry. Defense industry leaders in the current 18th Central Committee make up only about 3 percent of total membership (13 members). It is highly unlikely that these members would be able to capture any significant vote. Their participation and presence, however, does grant them opportunities to connect with other primary actors in the policy network.

#### *Use of personal networks*

Personal networks factor strongly into the defense industry’s ability to influence higher officials. A special case of using personal connections is the hiring of retired military officials as industry leaders or consultants by defense conglomerates. However, there are few documented cases of this phenomenon.

#### *Use of media*

The use of media includes submissions to news outlets, journals, and other channels viewed by a wide audience. Often, rather than directed toward a particular individual, media publications are used to garner grassroots support or to provide a broad voice into ongoing debates.

## CONCLUSION

China’s defense industry today is strongly integrated into the policy networks centered on defense procurement. Its integration, however, is only partially institutionalized and is the concomitant result of significant effort by the defense industry to increase its influence through various lobbying channels.

Bureaucratically, however, the current defense industry is the furthest it has yet been from other primary actors in the policy networks and often

acts in a secondary role. This primarily is the result of the 1998 restructuring of COSTIND and the 2008 creation of MIIT and SASTIND. These shifts have also increased the role of the military as a primary actor, shifting procurement from technology-push to demand-pull.

The defense industry's bureaucratic distance, however, does not

alone negate the ability of the defense industry to influence and lobby key decision-makers. Institutionalization of certain lobbying channels over time has increased the ability of the defense industry to affect key decisions in the early stages of weapons procurement. These channels, formal and informal, do not represent holes manipulated by the defense industry

in lobbying the state and military, but instead mark the continued importance and interdependence of the defense industry in the defense procurement policy networks.

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