



A springboard into politics: Do Chinese entrepreneurs benefit from joining the government-controlled business associations?



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ABSTRACT

Business associations in authoritarian regimes behave systematically different from their counterparts in democratic regimes. Using a unique dataset of Chinese private firms, this paper examines the impacts of joining the most prominent business association in China, the All-China Federation of Industry and Commerce (ACFIC) which was initiated and strongly controlled by the government. We find that ACFIC members have much higher chances to obtain formal political identities, that is, the deputy of People's Congress (PC) or the People's Political Consultative Conference (PPCC). However, ACFIC membership itself cannot help entrepreneurs acquire scarce resources that are controlled by the government. Rather, ACFIC members bear heavier tax burdens and make more informal payments to government officials. These findings suggest that the ACFIC act as a springboard into politics, rather than an effective collective action committee that can bring common benefits to its members or protect members from government predation.

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1. Introduction

Business associations, through the allied forces of entrepreneurs and their collective actions, have a large power to influence government policies (Olson, 1965, 1982).¹ In developed countries with well-functioning democracies, business associations can lobby for their special interests through direct participation in democracy, such as grassroots campaigns, campaign contributions or endorsements (Bombardini & Trebbi, 2012; de Figueiredo & Richter, 2014; Hansen, Mitchell, & Drope, 2005; Hillman & Hitt, 1999; Schuler, Rehbein, & Cramer, 2002). In countries with weak institutions, where state actors often undermine the property rights of private firms, business associations play an even larger role. They can limit state threats to property rights and even shape the institutional environment (Acemoglu et al., 2005; Chavis, 2013; Greif et al., 1994; Nugent & Sukiassyan, 2009; Oglivie, 2014; Pyle, 2009). For instance, in the transition economies of East Europe, business associations functioned “as legitimate instruments to represent collective interests in the formulation of law and policy” after the fall of the Berlin Wall (World Bank, 2000).

However, the functioning of business associations in an authoritarian regime remains unclear. This paper examines the consequences of entrepreneurs' participating in the most prominent business association in China, known as the All-China Federation of Industry and Commerce (ACFIC). Similar to business associations in other countries, the ACFIC claims that it represents the interests of entrepreneurs. Specifically, the ACFIC claims that it plays an important role in organizing private entrepreneurs, facilitates commu-

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¹ There is a long history of business associations (Oglivie, 2014). In medieval Europe, merchant guilds emerged to make rulers commit to the security of alien merchants (Greif, Milgrom, & Weingast, 1994). Between 1500 and 1800, European merchant groups enriched by Atlantic trade also constrained the power of monarchs to abuse property rights and induce institutional change in Western Europe (Acemoglu, Johnson, & Robinson, 2005).

nication between governments and firms, lobbies on behalf of private businesses, provide protective connections and publicly advocates policies that favor these businesses (Unger, 1996; International Finance Corporation, 2000; Deng & Kennedy, 2010; Jia, 2014). However, distinct from business associations in many other countries, the ACFIC is initiated and strongly controlled by the Chinese government, rather than initiated and self-managed by entrepreneurs. The ACFIC level is supervised by the Central Committee's United Front Department of the Chinese Communist Party (CCP), and is also a constituent organization of the PPCC and the holder of a number of seats in the PC. Government funding is an important source of financing for the ACFIC (Asian Development Bank, 2003). Although the leaders of local ACFIC chapters are nominally elected by ordinary ACFIC members, the United Front Department at each administrative level of CCP has great say over who is nominated and can hold office. Many of the ACFIC staff are government employees, including one executive vice-chairman that masters the real power and at the same time serves as a high-ranking government official. Thus, in this regard, the ACFIC is more like a quasi-government organization (Jia, 2014). It may behave on behalf of the interests of the government rather than its members, and the effectiveness of its collective actions to lobby the government and protect its members may be largely constrained.

Therefore, it is of great interest to detect whether the government-controlled business association can still bring common benefits to its members through collective actions, specifically, whether it can protect its members from the predation of corrupted government officials, or help its members to acquire scarce resources by lobbying the government or by broadening entrepreneurs' social capital or just by raising entrepreneurs' reputation.

Using a novel firm-level survey conducted on nationwide samples of privately owned enterprises in China in 2012, we first document that one significant political benefit for joining the ACFIC is having much higher chances to obtain a formal political identity. Specifically, compared with non-members, the ACFIC members are much more likely to be selected as deputies of the People's Congress (PC) or the People's Political Consultative Conference (PPCC) at the local level. In China, deputies of the PC and PPCC enjoy a high political status and, in this paper, are found to have much better access to bank credit. This result is in line with the fact of China's politics. The ACFIC plays an important role in the nomination of deputy candidates at all levels of the PC and PPCC. If private entrepreneurs are chosen as candidates for the PC or PPCC, the CCP's local authorities often consult the ACFIC, and the ACFIC also tends to recommend its own members.

Then, we examine the effects of ACFIC membership on the probability of acquiring economic benefits that are controlled by the government. In the regressions, we control for an array of firms' and entrepreneurs' attributes. In particular, we control the deputyship of PC/PPCC in order to isolate the pure effect of ACFIC membership itself. We further use the Heckman self-selection model to mitigate the self-selection problem. It is found that entrepreneurs with ACFIC membership cannot significantly obtain more bank loans. ACFIC members also do not have easier access to land, or enjoy more preferential pollution regulation, or earn higher profit than non-members. Surprisingly, we further find that ACFIC members pay more tax and make more informal payments to government officials than non-members. Since ACFIC members have higher probability to be selected into PC or PPCC by the government, more tax and informal payments can be regarded as investments made in the short run to eventually obtain the major privileges wanted from the government later on. Those findings suggest that the ACFIC, as a government-controlled business association, acts as a springboard for entrepreneurs to step into politics, rather than as an effective collective action committee that can bring common benefits to its members and protect members from government predation.

This study makes the following contributions to the literature. The primary innovation is that this paper advances the literature on the role of business associations. The recent literature finds that business associations (which are independent from the government) in premodern economies and East European transitional economies help to combat bureaucratic predation and thus protect property rights (Acemoglu et al., 2005; Chavis, 2013; Greif et al., 1994; Nugent & Sukiassyan, 2009; Oglivie, 2014; Pyle, 2009). In contrast, this paper provides evidence on the role of government-controlled business associations in an authoritarian country. We find that business associations in China cannot bring common benefits to all members through collective action, but only help a small proportion of them to obtain individual political status.² In addition, we find that, unlike business associations in East European transition economies, the ACFIC fosters rather than limits government corruption, and acts as a facilitator of collusion between entrepreneurs and government officials. Second, this paper broadens the current understanding on the ACFIC. Most previous studies on the ACFIC are descriptive and concentrated in the literature of political science or management (Deng & Kennedy, 2010; Dickson, 2003, 2008; Guo, 2007; Jia, 2014; Kennedy, 2005, 2011; Unger, 1996), and none of them have used firm-level data to empirically investigate the impacts of ACFIC. This paper fills this gap.

The remainder of this paper is structured as follows. In Section 2, we discuss the institutional background and develop the hypothesis. Section 3 describes the sample construction and summary statistics. Section 4 presents our main empirical results. Section 5 concludes the paper.

2. Institutional background and hypothesis development

2.1. The ACFIC

Business associations in China can be divided between chambers of commerce and industry-specific associations. In the former category, members originally share a common ownership type and can come from various industries. The most influential one created

² Our finding echoes with some authors who have argued that firms participate in business associations not only pursue the public goods through collective action but also to have an incentive for individual action to obtain the private goods (Hansen & Mitchell, 2000; Hansen et al., 2005).

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