Chapter 14
Redefining "Business–Society Relations" for Japanese Corporations in China:
An Empirical Approach

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ABSTRACT

The long and complex history between China and Japan, and in particular the "negative heritage" of the Second World War, has effectively alienated the two countries and led to a pervasive culture of anti-Japanese sentiment throughout China. Following the violent demonstrations of 2005, this anti-Japanese sentiment has also had an effect on the economic prospects of Japanese corporations, creating apprehension over the future of Japanese corporate and trade relations in China. All of this has forced Japanese companies seeking to expand their businesses abroad to grapple with the unique challenges of operating within the highly politicized environment of Chinese nationalism. This begs the question: how should Japanese corporations respond to Chinese nationalism in pursuing their business objectives? Based on field research conducted in 2007, this chapter begins with an analysis of the impact of Chinese nationalism on the commercial prospects of Japanese businesses with operations in China, goes on to discuss the importance of "business-society relations" for the localization of Japanese corporations in the Chinese market, and concludes by recommending strategies for social engagement that deal effectively with these issues. Still, the success of any such strategy ultimately depends on whether China's market economy continues to develop in the face of harsh political conditions and growing social unrest. To date, only a handful of studies have addressed the impact of business-society relations on the economic performance of Japanese corporations operating in China. This chapter is an attempt to fill that gap.

1. INTRODUCTION AND BACKGROUND

The performance of Japanese enterprises in China has always been an important topic of study, though the challenges facing these companies are constantly changing along with market conditions. The following will focus on the impact of Chinese nationalism on the localization of Japanese businesses in China, including a discussion of the conditions behind the deterioration of a Japanese presence in China and the role of business-society relations in improving them.[1]

1.1. Sino-Japanese Relations

Since the Second World War, relations between China and Japan may be best described as both "near and far" -- near in terms of geography, culture and economics, yet far in terms of politics, customs and attitudes.[2] More recently, anti-Japanese sentiment in China has been exacerbated by territorial disputes over the Senkaku Islands and the natural resources of the East China Sea.[3] In 2005 the anti-Japanese demonstrations that began in Beijing on April 9th, spread to Shanghai, Tianjin and Hangzhou on the 16th and engulfed Shenyang, Xiamen and Guangzhou on the 17th shocked many Japanese nationals living and working in China.[4] These protests were instigated by a number of factors, including the approval of a Japanese history textbook presenting a skewed account of World War II and the proposal that Japan be granted a permanent seat on the United Nations Security Council. In many parts of China, the repercussions of these events continue today in the popularity of such slogans as "do not buy Japanese products," which originated from a collective resentment over the veneration of Japanese war criminals in the Yasukuni Shrine. They are also evident in ongoing disputes between labor and management as well as unwillingness on the part of Chinese consumers to purchase Japanese products or invest in Japanese companies.

Given such deep-rooted resentment, anti-Japanese sentiment in China is now viewed by most Japanese corporations as a risk of doing business that is likely to continue for some time. For while there is no definitive evidence that it has had a long-term effect on the activities of Japanese corporations in China, the commercial repercussions of the 2005 demonstrations represent more than a simple case of blind economic nationalism, just as anti-Japanese sentiment itself is more than merely the product of political propaganda. In order to improve Sino-Japanese relations and expand their market share in China, it is thereby essential that Japanese corporation refine their understanding of China's hostility for Japan.

1.2. The Role of Business-Society Relations

Anti-Japanese sentiment aside, China is currently in the midst of a crossroads in its development which begs a radical reexamination of the last thirty years of economic reform since the Cultural Revolution. As China has evolved from a "planned socialist economy" to a "socialist market economy" and a "harmonious society,"[5] the Chinese government has begun to espouse political ideologies which prioritize social issues in an effort to maintain a delicate balance between economic growth and social stability. Japanese corporations must not only compete with domestic and multinational corporations, but also take into account these ideologies in formulating new and creative approaches to localization.

Thus far, Japanese enterprises have relied on superior product quality and advanced technology to compete in the Chinese marketplace. As the product quality and technical expertise of Chinese companies improve, however, this will no longer constitute a competitive advantage. Yet while brand recognition is essential to attract competent personnel and maintain managerial loyalty, recognition and respect for Japanese brands in the Chinese market remains low due to the political

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