Chapter 10

China’s “Harmonious Society” Challenges Corporate Japan: Towards a Dual Vision of Profitability and Social Responsibility

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ABSTRACT

Anti-Japanese sentiment in China since the Second World War has been exacerbated by recent territorial disputes involving the Senkaku Islands and the natural resources of the East China Sea. The widespread dissemination of anti-Japanese propaganda by the Chinese media has further contributed to this negative image of Japanese corporations. This pervasive climate of anti-Japanese sentiment has forced Japanese companies seeking to expand their businesses abroad to grapple with the unique challenges of navigating the highly politicized environment of Chinese harmonious society. Still, the success of any foreign companies in China fundamentally 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 effects of Chinese harmonious society on the performance of Japanese corporations operating in China. This study is an attempt to fill that gap.

INTRODUCTION

The People’s Republic of China is an important market for a wide range of Japanese industries, many of which remain the most prominent supporters of China’s economic and technological development. Japanese corporations have increased their presence in China significantly over the past decade as China has developed into more than simply an inexpensive place for production. Despite deteriorating political ties, the development of economic relations between China and Japan
China’s “Harmonious Society” Challenges Corporate Japan

has been vigorous. From 1990 to 2003, Japan was China’s number one trading partner, and in 2007 it emerged as China’s top export customer, with bilateral trade between the two countries reaching an estimated US$236.6 billion, or 17.7% of total Japanese external trade. For the first time in history, Sino-Japanese bilateral trade has now exceeded that of American-Japanese trade, though the size of China’s economy remains less than a quarter of that of the United States.1

Since 1989, Japan has also been extremely active in investing in China’s nascent economy, and is currently the second largest source of Foreign Direct Investment (FDI) in China. From 1990 to 2007, cumulative Japanese FDI in China amounted to $64 billion, or about 10% of its total FDI for the period. While China’s exports to Japan grew an average of 14.9% annually from 1990 to 2007, Japanese exports to China rose at an even faster annual rate of 18.5%. Despite the fact the Japanese economy shrank 0.6% in the second quarter of 2008, Japan’s exports to China grew 24.5% in the first five months alone.2 Clearly, the robust demand for goods and technology emanating from China is crucial to preventing the Japanese economy from slumping into another recession.

Yet the economic ties between the two countries have formed against a historical backdrop characterized by complex and thorny political issues that have proven resistant to resolution through negotiation and compromise. In some respects, the difficulties facing Japanese corporations are emblematic of those facing all multinational enterprises (MNEs) seeking to take advantage of China’s emerging market. To the extent their interests differ from the policies of the state in which they conduct business, MNEs often find themselves in conflict with local government, with which they must learn to collaborate as both a means of fostering economic development and as a strategy for corporate survivability. In the case of Japan, the growth of the Chinese economy has been instrumental to the development of its own mature economy since as early as 2002. Through a combination of outsourcing and FDI, Japanese MNEs have fostered mutually beneficial relations with Chinese firms by gradually integrating them into their global production networks. At the same time, while Japanese MNEs have utilized China’s cheap and productive labor force to strengthen their global competitiveness, Chinese firms have used Japan’s global marketing networks and world-renown brands to sell “made-in-China” products around the world. Nonetheless, improved economic ties have not led to better political relations, which is why analysts have continued to refer to the Sino-Japanese dynamic as “cold in politics but hot in economics.”

Because mutual misunderstandings and historical grudges are difficult to eradicate, anti-Japanese sentiment is likely to dictate Sino-Japanese relations in both the public and private sector for some time to come. This begs the question: how should Japanese corporations respond in a country fraught with cross-cultural hostility and subject to dramatic economic change? The following is an attempt to provide a preliminary answer to this question.

CHINA’S EMPHASIS ON CORPORATE RESPONSIBILITY

Based on the discussion above, this section provides a critical assessment of prior research and how it helps to illuminate the unique challenges facing Japanese corporations in China. Recent developments suggest the emergence of the notion of a “harmonious society” in China has led to greater emphasis on social engagement, forcing Japanese corporations to live up to various corporate responsibilities imposed by the Chinese government.