

**CROSSROADS IN SINO-JAPANESE RELATIONS**  
EXPLORING THE IMPACT OF ANTI-JAPANESE SENTIMENT ON  
JAPANESE FIRMS' BUSINESS RELATIONS IN CHINA

Master of Arts in Law and Diplomacy Thesis

**Submitted by Jane W. Wang**

2005

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THE FLETCHER SCHOOL

TUFTS UNIVERSITY

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by

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A thesis submitted in partial fulfillment of  
the requirements for the degree of

MALD

The Fletcher School, Tufts University

2005

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### ABSTRACT

#### **CROSSROADS IN SINO-JAPANESE RELATIONS: EXPLORING THE IMPACT OF ANTI-JAPANESE SENTIMENT ON JAPANESE FIRMS' BUSINESS RELATIONS IN CHINA**

by Jane W. Wang

Thesis Advisor: Professor Alan Wachman

Do unresolved historical tensions negatively affect current business relations between countries? This paper explores the question of whether popular anti-Japanese sentiment in China impacts Japanese firms' business relations in China. Drawing on relevant history, current trends, and key conceptual frameworks, the paper seeks to interpret the discrepant evidence from cases, media accounts, research studies, quantitative data and interviews with practitioners, which present contradictory portraits of the impact from anti-Japanese sentiment on Japanese firms in China. Upon analysis, it is found that national identity – its salience, associated social norms, and encouragement of activism – is the determining factor in driving the public expression of anti-Japanese sentiment in action in the business realm. In private transactions, however, where the benefit and cost to the immediate actors involved are of primary consideration, Chinese business behavior tends to be driven more by rational choice than by national identity. Thus, the impact of anti-Japanese sentiment on business relations represents the sensational exceptions rather than the general rule. Nevertheless, anti-Japanese sentiment carries real risks for Japanese firms in China, which may heighten if anti-Japanese national identity salience is sustained at the current high level. At a crossroads in Sino-Japanese relations, the quantifiable impact of historical grievances through the negative effects of anti-Japanese sentiment on current business relations may as yet prompt a final reckoning of the past between the two great powers of Asia.

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## ACKNOWLEDGMENTS

I would like to express my sincere appreciation to Professor Alan Wachman for his guidance and support in preparation of this manuscript. Special thanks to Andrea Dew, whose tireless brilliance carried me through completion of this project; and to Takashi Yoshioka, whose unfailing generosity does not cease to amaze me. Thanks also to Jesse Parker, Kozo Saiki, Ritsuko Yoneda, Hideyasu Tamura, Genhua Wang, Wei Han, Hongchi Wei, Nobuhiro Yamamoto, Hiroaki Ichiba, Kiyoshi Hikino, Mami Fukuchi, Professor Crocker Snow, Jane Morris, Peter Ennis, Chang Chiu, Paul Shih and other friends from the Fletcher community and beyond who provided excellent contacts, resources and support throughout this process. Finally, many thanks to the practitioners and experts who shared their valuable time and insights in contribution to this research, and to the Fletcher School, for providing the opportunity and environment for worthy scholarly pursuit.

## INTRODUCTION

On April 3, 2005, angry Chinese crowds in Chengdu, Sichuan Province smashed the windows of a Japanese-owned supermarket as part of a protest against Japan's bid for a permanent seat on the United Nations Security Council.<sup>1</sup> What began as a relatively small protest in central China became the first in a series of full-scale anti-Japanese demonstrations involving tens of thousands across more than twenty major cities in China in the largest and most sustained mass protests since those of Tiananmen in 1989. Angry at the Japan's lack of remorse for World War II atrocities, protesters vandalized Japanese restaurants and shops, damaged Japanese-made cars, and called for boycotts of Japanese goods. Even in Shanghai, home to hundreds of Japanese businesses, as many as 20,000 showed up to march on the Japanese Consulate there.<sup>2</sup> Meanwhile, Japanese foreign minister Nobutaka Machimura warned that "Japan-China relations as a whole, including on the economic front, could decline to a serious state."<sup>3</sup>

This recent string of anti-Japanese protests in China represented the latest in mounting tensions between China and Japan, at once bitter political rivals and

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<sup>1</sup> "Japanese store in China attacked during demo against Japan," *Kyodo News*, April 3, 2005. Accessed April 18, 2005. Available from <http://home.kyodo.co.jp/all/display.jsp?an=20050403099>.

<sup>2</sup> "More protests erupt in China," *The Japan Times* (compiled from AP, Kyodo), April 17, 2005. Accessed April 18, 2005. Available from <http://www.japantimes.co.jp/cgi-bin/getarticle.pl5?nn20050417a1.htm>.

<sup>3</sup> "New anti-Japan protests erupt as Japan's FM in China," *USA Today*, April 17, 2005. Accessed April 18, 2005. Available from [http://www.usatoday.com/news/world/2005-04-16-china-protests\\_x.htm?csp=34](http://www.usatoday.com/news/world/2005-04-16-china-protests_x.htm?csp=34).

vital economic partners. The two great powers of Asia have experienced a dramatic deterioration in political relations over recent years, with the Chinese public displaying increasingly hostile attitudes toward Japan, even as the Chinese and Japanese economies have become increasingly intertwined and trade and investment has flourished. While politics may seem separate from economics, however, a proliferation of anti-Japanese sentiment in China in recent years has generated speculation that the “chilly politics” could potentially quench the “hot economics” between the two countries.<sup>4</sup> Indeed, in the final analysis, does deep historical resentment have an impact on business interactions, or are practical business relations relatively oblivious to the perpetual dramas of politics?

The evidence has in fact been mixed. That there exists strong anti-Japanese sentiment in China is undisputed; however, the impact that it has on business relations between Japan and China is not as immediately apparent. From some angles, the Chinese people’s deep-rooted historical antipathy toward the Japanese seems to measurably harm Japanese firms’ business operations in China, such as in the recent anti-Japanese demonstrations. From other angles, these anti-Japanese emotions seem to play themselves out within the confines of politics and have little or no impact in the business sphere, which operates on the language of mutual benefit and focuses not on history but on the present and

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<sup>4</sup> “Article alerts China-Japan relations to changes,” *People’s Daily Online*, December 24, 2004. Accessed January 8, 2005. Available from [http://english.people.com.cn/200412/24/eng20041224\\_168531.html](http://english.people.com.cn/200412/24/eng20041224_168531.html).

future. With such discrepant portraits of the impact that anti-Japanese sentiment has on business relations, what then is the reality of the situation?

In this paper, I set out to determine the impact that anti-Japanese sentiment has had on Japanese firms' business operations in China over recent years<sup>5</sup> by examining the varying evidence, some of which demonstrates and others of which disproves the impact. The evidence I focus on is primarily qualitative and secondary rather than based on extensive empirical study; thus, this paper is meant to be exploratory rather than conclusive in its analysis of the dynamics between anti-Japanese sentiment and business relations. First, I establish the premise of the paper by presenting an overview of the history of Sino-Japanese relations, with a focus on the roots and manifestations of Chinese hostility toward Japan. Then, I discuss the terms and conceptual frameworks, such as national identity and rational choice, that provide a common language for this study. Next, I examine in turn the evidence arguing for and arguing against the business impact of anti-Japanese sentiment in China, followed by an analytical interpretation of this seemingly contradictory evidence. Based on the evidence and analysis, I conclude with my tentative assessment of the impact of anti-Japanese animosity on Japanese business operations in China, delineating the limitations of the study and areas for further research.

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<sup>5</sup> I have not specified a time period for analysis, but the evidence I analyze has primarily been from 2000 to current.

Now, I begin with the premise of this paper – the tumultuous story of Sino-Japanese relations. I give a brief overview of modern Sino-Japanese history of the past century, focusing on the sources of anti-Japanese nationalism, and then discuss the current trends in anti-Japanese sentiment that demonstrate the potency of emotions involved. An understanding of the history and current trends in interactions and grievances between the two nations is essential as a backdrop to understanding why anti-Japanese sentiment has generated concern over possible spillover into the business realm of relations.

## *Chapter 1: Background*

### **SINO-JAPANESE RELATIONS**

#### **Historical overview**

While China and Japan had enjoyed a largely symbiotic,<sup>6</sup> “big brother-little brother” relationship in ancient times, the turn of the twentieth century marked the beginning of their troubled relationship to date. Japan’s imperialist victory over China in the first Sino-Japanese War (1894-1985) reversed China’s prior preeminence within the relationship and set the tone for Japan’s dominance over China for the next century. China’s resultant posture of weakness and victimization was exacerbated by forced concessions to Japan at the Versailles Peace Conference post-World War I,<sup>7</sup> which sparked mass anti-Japanese movements culminating in the May Fourth Movement of 1919 and a nationwide boycott of Japanese goods that followed.<sup>8</sup> A generation later, Japanese atrocities in the second Sino-Japanese War (1937-1945) also spawned mass anti-Japanese movements and cemented China’s hatred of Japan, eventually fueling the anti-Japanese elements of Chinese nationalism. To this day, the Rape of Nanjing of December 1937 – the worst single incident of Japanese atrocities in China, where

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6 Rebecca A. McCluskey, “Sino-Japanese Relations, From Strife to Strides,” March 25, 1999. Accessed March 5, 2005. Available from <http://www.lehigh.edu/~rhw1/courses/1999/spring/ir163/Papers/pdf/ram2.pdf>.

7 McCluskey, 3.

8 Karl Gerth, *China Made: Consumer Culture and the Creation of the Nation* (Cambridge, Massachusetts and London: Harvard University Press, 2003), 146-147.

300,000 Chinese civilians were brutally murdered in the course of six weeks – continues to live on in Chinese memories as a symbol of Japanese cruelty and an inspiration for continued anti-Japanese feelings in China today.

In the post-World War II era, China and Japan maintained limited relations based on trade, as each nation focused on internal reconstruction. Relations were normalized in 1972, after which the two countries enjoyed a decade of relatively harmonious relations. Points of contention within the Sino-Japanese relationship, such as Japan's version of war history, disputes over the Diaoyu/Senkaku islands, or the Taiwan issue,<sup>9</sup> were subsumed under the objective of strategic alignment against the Soviet Union, and Beijing strived to circumscribe public knowledge about Japanese war atrocities or Japan's subsequent treatment of war history for the sake of stable relations with Tokyo.<sup>10</sup> Beginning in the early 1980s, however, the Communist narrative was in jeopardy due to the disastrous Cultural Revolution and friction from economic reform policies, leading Beijing to rally public support by promoting nationalism as a replacement for Communist ideology. As part of this new promotion of official

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<sup>9</sup> For Japan's version of World War II history, see footnote 13 on the textbook controversy with Japan. The Diaoyu/Senkaku Islands: while these islands cover only 20 km of land, sovereignty over these islands would yield access to tens of thousands of square kilometers of exclusive economic zone (EEZ) in the surrounding waters, in which lies a yet-unexplored continental shelf that may contain oil. The islands have long been disputed due to different interpretations of treaty stipulations that date back to the first Sino-Japanese War of 1895; see Charles K. Smith, "Senkaku/Diaoyu Island Dispute Threatens Amiability of Sino-Japanese Relations," *Power and Interest News Report (PINR)*, May 3, 2004 (accessed December 16, 2004); available from [http://www.pinr.com/report.php?ac=view\\_report&report\\_id=165](http://www.pinr.com/report.php?ac=view_report&report_id=165). The Taiwan issue: Under normalization of relations, Japan recognized the People's Republic of China (PRC) as the sole legitimate government of China and severed official ties with Taiwan. However, Japan never took a formal position on Taiwan's legal status and has maintained unofficial ties with Taiwan since, under tacit permission from Beijing; see Yanan He, "Nationalism and the Emerging Sino-Japanese Conflict," 4-5.

<sup>10</sup> Yanan He, "Nationalism and the Emerging Sino-Japanese Conflict," paper prepared for Fairbank Center Postdoctoral Workshop on *Identity, Nationalism and Chinese Foreign Policy*, Harvard University, March 2005.

nationalism, Beijing redirected state history education from a prior emphasis on class confrontation with the Kuomintang to a new focus on China's resistance to foreign aggression, which prominently featured Japan as the national enemy.<sup>11</sup>

Once the state unleashed this anti-Japanese nationalism, the Chinese people embraced this victim narrative wholeheartedly, giving rise to the very problems that plague Sino-Japanese relations today. A symphony of textbooks, films, academic publications, best-selling books, war memorials, mass media and internet chat rooms – much of it popularly rather than officially spawned – collectively painted the Japanese national character as “barbarian, bellicose, and brutal”<sup>12</sup> and stimulated a host of popular grievances against Japan. Chief among these, even today, were protests against Japanese prime ministers' visits to the Yasukuni Shrine<sup>13</sup> and Japanese textbooks' distortion of war history<sup>14</sup> – both of which were the main topics of a mid-1980s protest representing the first popular anti-Japanese demonstration in the post-war era. Since that first protest, anti-

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11 He, 7-9.

12 He, 12.

13 The Yasukuni Shrine is a Shintoist temple in Tokyo that honors 2.5 million of Japan's war dead, including 14 convicted class A war criminals. According to the Shinto religion, these souls are worshipped, not just remembered, as deities. China and other Asian countries have protested Japanese prime ministers' visits to the shrine as disrespectful to the victims of Japan's military aggression during the Second World War. The debate becomes especially heated each year in the lead-up to August 15, the day of Japan's surrender in 1945. See *BBC News*, “Japan's Controversial Shrine,” April 7, 2004.

14 The textbook controversy with Japan became a diplomatic issue in 1982 when a Chinese, South Korean and Japanese press campaign reported extensively on the Japanese Ministry of Education's decision to order revisions to Japanese history textbooks that would further downplay coverage of Japanese military aggression in World War II. The ministry's decision was in response to Japanese historian Ienaga Saburo's third lawsuit against the Japanese government (the first was filed in 1965) charging the unconstitutionality of the textbook approval process. International pressure succeeded in securing from the ministry a new criterion requiring textbooks to “show understanding international harmony” when covering history involving Asian neighbors, but was unsuccessful in discontinuing the textbook screening which continues in Japan today. See *The Korea Herald*, “Background of Textbook Dispute,” April 6, 2005.

Japanese mass demonstrations have been held routinely on war anniversary days or during bilateral diplomatic disputes. Indeed, anti-Japanese nationalism eventually became so deeply ingrained in the Chinese populace that even the Chinese government was often forced to maintain a hard line toward Japan even in instances where compromise with Japan may have been diplomatically more prudent.<sup>15</sup>

### **Current trends in anti-Japanese sentiment**

Anti-Japanese sentiment has been on the rise in recent years. According to a poll conducted by the Institute of Japanese Studies in the Chinese Academy of Social Sciences in 2004, 53.6% of respondents indicated an “unfavorable” or “very unfavorable” view of the Japanese, up 10.3% points from a survey conducted in 2002.<sup>16</sup> Indeed, Sino-Japanese friction has reached new heights both in frequency and intensity. In June 2003, Chinese internet activists organized a first-ever mainland Chinese trip to the disputed Diaoyu/Senkaku islands to stake claim, and then in July, these same activists collected nearly 90,000 signatures to protest Japan’s bid in the Beijing-Shanghai high-speed rail project. In August the same year, the “mustard gas” incident ignited anti-Japanese fury when one Chinese was killed and several others injured from

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<sup>15</sup> He, 12.

<sup>16</sup> Xiao Qiang, “Anti-Japanese feeling growing in China, poll shows,” *China Digital News*, November 23, 2004. Accessed March 12, 2005. Available from <http://journalism.berkeley.edu/projects/chinadn/en/archives/003902.html>.

contact with metal barrels containing mustard gas left over by the Japanese Imperial Army in Qiqihar in northeast China. Then in September, more outrage against Japan erupted when a sex orgy between hundreds of Japanese businessmen and Chinese prostitutes in the southeast city of Zhuhai, on the anniversary day of Japan's 1931 invasion of Manchuria, was exposed over the internet. Finally, in October, an offensive skit by three Japanese students and their teacher at Northwestern University in Xi'an led to a 7,000-student demonstration and nationwide condemnation.<sup>17</sup>

These contentious incidents were in 2003 alone; in 2004, tensions continued to mount. The Asia Cup soccer finals held in Beijing in August prominently displayed the intensity of anti-Japanese sentiment when young Chinese fans reacted in anger to Japan's victory by hurling invective at Japanese fans, burning Japanese flags, and even vandalizing a Japanese car.<sup>18</sup> Meanwhile, a dispute developed over natural gas resources in the East China Sea, wherein both China and Japan laid claim to the Chunxiao gas field that lies within the two countries' disputed exclusive economic zones (EEZ).<sup>19</sup> In November, a Chinese Navy nuclear submarine intruded in Japanese waters, causing a diplomatic uproar,

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17 Peter Hays Gries, "China's 'New Thinking on Japan,'" forthcoming in *The China Quarterly*, 2005. Accessed October 2, 2004. Available from <http://socsci.colorado.edu/~gries/articles/texts/GriesNewThinkingCQFinal.pdf>, p. 20-21. Cited with permission of author.

18 "So hard to be friends," *Economist*, March 23, 2005. Accessed March 23, 2005. Available from [http://www.economist.com/displaystory.cfm?story\\_id=3786409](http://www.economist.com/displaystory.cfm?story_id=3786409).

19 Adam Wolfe, "The Potential Deterioration of Sino-Japanese Relations," *Power and Interest News Report (PINR)*, December 6, 2004 (accessed December 16, 2004); available from [http://www.pinr.com/report.php?ac=view\\_report&report\\_id=242&language\\_id=1](http://www.pinr.com/report.php?ac=view_report&report_id=242&language_id=1).

even as the Japanese government decided on a reduction of Official Development Assistance (ODA) to China.<sup>20</sup> In December, Japan also revised its National Defense Program Outline to name China as a “potential threat,” while granting former Taiwan president Lee Teng-hui a visa to privately visit Japan, further provoking Chinese anger.<sup>21</sup> In 2005, Sino-Japanese friction has culminated with the recent anti-Japanese mass demonstrations in April.

Fueling these diplomatic tensions, popular antipathy toward Japan has spread like wildfire through the internet and effectively shut down those voices in China that might advocate for a more conciliatory approach toward Japan. Liberal Chinese intellectuals like Ma Licheng and Shi Yinhong, who have advocated “New Thinking” toward rapprochement with Japan for China’s best interest, have been squelched not by the Chinese government but by avid nationalists on the internet. For his admonition that history be put to rest in the interests of mutually beneficial cooperation, Ma was burned in effigy over the internet, even receiving death threats after his address and phone number were publicly posted on the net.<sup>22</sup> Popular culture icons like Chinese actress Zhao Wei and actor Jiang Wen have also been subject to “insults and intimidation” through

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20 On ODA: “Japan has provided China with O.D.A. since 1979, but it is largely considered to be retribution for the atrocities committed by Japan in WWII that motivated the initial O.D.A. payments. The political climate has changed greatly since the O.D.A. program began, and Japan is moving to end the aid to China.” – Wolfe, “The Potential Deterioration of Sino-Japanese Relations,” *Power and Interest News Report (PINR)*, December 6, 2004.

21 Norimitsu Onishi, “The Japan-China Stew: Sweet and Sour,” *The New York Times*, January 19, 2005. Accessed January 19, 2005. Available from <http://www.nytimes.com/2005/01/19/international/asia/19letter.html>.

22 Ma was finally compelled to leave the People’s Daily in Beijing in the summer of 2003 to take a job at Phoenix TV in Hong Kong; see Gries, 11.

the internet, Zhao for wearing an American-designed dress sporting an Imperial Japanese flag, and Jiang for having admitted to visiting the Yasukuni Shrine. Organizing over the internet, zealous protesters smashed Zhao's house with bricks and bottles and smeared her dress with excrement at a public appearance, while Jiang was widely denounced on the internet as a "traitor."<sup>23</sup> These examples show that the internet now perpetuates a virulent anti-Japanese nationalism that silences all opposition and even constrains the Chinese government's ability to pursue a moderate Japan policy.<sup>24</sup>

As current trends in anti-Japanese sentiment suggest, the bitter history of Sino-Japanese relations coupled with official promotion of anti-Japanese nationalism has in fact caused popular antipathy toward Japan to be more visceral and more potent than Chinese nationalism or xenophobia directed at other countries. According to Peter Hays Gries, the anger behind China's century of humiliation has been largely directed at Japan, whose insulting behavior against "big brother" China through the degrading treaties and atrocities of the Sino-Japanese wars has given anti-Japanese emotions in China "both 'higher' ethical and 'lower' visceral dimensions."<sup>25</sup> In an analysis of public opinion in Beijing based on the Beijing Area Study (BAS), Alastair Iain Johnston also found Beijing public opinion of the Japanese to be on average more negative and pervasive

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23 Gries, 3-7.

24 Gries, 21.

25 Gries, 21.

across income groups, education levels, political generation and gender than public opinion of Americans.<sup>26</sup> Indeed, whether state-sponsored or spontaneous, Chinese animosity toward Japan is distinctly more potent and widespread than animosity toward other countries, even toward the United States.

Anti-Japanese sentiment in China may also appear especially potent because it is one of the few forms of collective political expression that the Chinese Communist Party (CCP) has endorsed, and possibly even encouraged, since the Tiananmen demonstrations in 1989. China's economic reforms of the past decade or more have spawned widespread social discontentment, including protests by displaced workers of former state-owned enterprises (SOEs) and grievances over massive income inequality, corruption and environmental hazards, among others.<sup>27</sup> The CCP has thus used nationalism, especially of the anti-Japanese brand, as a safe and convenient outlet for public frustrations in an era of declining party legitimacy.<sup>28</sup> Moreover, anti-Japanese nationalism is useful to the Chinese government as leverage in negotiations with Japan, allowing the government to claim that its "hands are tied" on policy towards Tokyo.<sup>29</sup> The

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26 Alastair Iain Johnston, "Correlates of Nationalism in Beijing Public Opinion," paper prepared for Fairbank Center Postdoctoral Workshop on *Identity, Nationalism and Chinese Foreign Policy*, Harvard University, March 2005: 18, 26.

27 Center for Strategic and International Studies (CSIS), *China's Domestic Challenges* (accessed April 20, 2005); available from [http://www.csis.org/china/domestic\\_challenge.cfm](http://www.csis.org/china/domestic_challenge.cfm).

28 Isabelle Hinton, "China's beating nationalist drum may backfire," *The Guardian*, reprinted by Taipei Times, April 18, 2005. Accessed April 20, 2005. Available from <http://www.taipetimes.com/News/edit/archives/2005/04/18/2003250986>.

29 Joseph Kahn, "China Is Pushing and Scripting Anti-Japanese Protests," *The New York Times*, April 15, 2005. Accessed April 15, 2005. Available from <http://www.nytimes.com/2005/04/15/international/asia/15china.html>.

recent anti-Japanese demonstrations, for which the Chinese police gave tacit approval, exemplify the instrumental dimension of anti-Japanese sentiment. While emotions are genuine in popular displays of anti-Japanese sentiment, the prevalence of these displays owes at least in part to their endorsement by the Chinese government.

Anti-Japanese sentiment in China today is rooted in both unresolved historical grievances and state-sponsored promotion of nationalism, and expressed widely on the internet and in other public forums. The impact of this virulent emotion has thus far been felt mostly in the political sphere of Sino-Japanese relations, while the impact on business interactions between the two countries remains to be explored. In the following section, I define the key terms and conceptual frameworks used in this paper to analyze the impact of anti-Japanese sentiment on Japanese business relations in China.

## **TERMS**

In analyzing the impact of anti-Japanese sentiment on Japanese business relations in China, it is important to clarify the terms used in this discussion. As follows, I define “anti-Japanese sentiment,” “business relations,” and “impact” to ensure a common understanding of these key terms in the ensuing discussion.

Anti-Japanese sentiment, as used in this paper, is defined as resentment or antipathy held against Japan that is rooted in historical grievances and exacerbated

by present-day competitive tensions. Following discussion of the origins and manifestations of anti-Japanese sentiment in the previous section, I characterize the nature of anti-Japanese sentiment as a pyramid of three distinct constructs that share common elements for identifying “feelings, attitudes and behavioral manifestations linked to one’s sense of national identification”: patriotism, nationalism and animosity.<sup>30</sup>

As shown below, these constructs<sup>31</sup> build upon one another as forces driving anti-Japanese sentiment. Beginning with patriotism and moving up the pyramid, the constructs describe feelings that are gradually more negative and more narrowly directed against Japan. Moreover, though anti-Japanese sentiment is rooted in all three constructs, the relevance of each in defining anti-Japanese sentiment increases the closer to the apex (as shown by the shading):



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30 Sergio Carvalho and Martha Cook, “Exploring the Role of Salience in the Expression of Feelings of National Identity in Consumption Patterns.” Accessed December 28, 2004. Available from <http://faculty.fuqua.duke.edu/ciber/programs/pdf/scmc.pdf> (link outdated, hard copy available upon request).

31 These constructs are commonly used in studies on consumer behavior to distinguish between the motivations behind various types of consumer behavior.

Patriotism, referring to the feelings of “attachment, love and loyalty” toward one’s nation, motivates Chinese people’s “social commitment” to come to the defense of their country<sup>32</sup> and serves as the positive foundation upon which nationalism and animosity are built. Moving up the pyramid, nationalism also encompasses patriotism’s positive elements of pride and commitment toward one’s nation, but adds a negative undertone of hostility toward foreign nations.<sup>33</sup> Animosity, at the apex, is the most relevant construct that defines anti-Japanese sentiment, because it refers to strong negative feelings directed at a specific country due to “previous or ongoing military, political, or economic events”<sup>34</sup> and results in the “active avoidance of specific nations and, by extension, the many different representations of these nations.”<sup>35</sup> The increasingly negative feelings focused on other, specific nations makes the construct of animosity the most characteristic of anti-Japanese sentiment; however, as anti-Japanese sentiment is embodied in all three constructs, I use the three terms in their relevant capacities.

The other key term in this discussion is “business relations” (sometimes also referred to as “business operations,” “business interactions,” “business transactions,” “business activities,” “commercial relations,” and other variations). I refer to “business” as the activities in which companies engage, with various

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32 Carvalho and Cook, 6.

33 Carvalho and Cook, 6-7.

34 Jill Gabrielle Klein, Richard Ettenson, and Marlene D. Morris, “The Animosity Model of Foreign Product Purchase: An Empirical Test in the People’s Republic of China,” *Journal of Marketing*, January 1998. Accessed December 28, 2004. Available from ABI/INFORM Research.

35 Carvalho and Cook, 7.

actors in society, to achieve profit or shareholder value. The “business relations” I examine are of Japanese firms’ interactions with various actors in Chinese society, including consumers primarily, but also with prospective employees, business partners and the government. While Sino-Japanese business relations comprise enormous territory, I focus in this paper on Japanese firms’ business activities in China as the most relevant dependent variable, leaving discussion of the impact of anti-Japanese sentiment on Chinese firms’ business activities in Japan, as well as other potential dependent variables, to future research.

How will the “impact” of anti-Japanese sentiment on business relations be gauged? The scope of this paper does not feasibly include on-site, in-depth empirical analysis that properly isolates anti-Japanese sentiment as an independent variable influencing the broad spectrum of business relations. However, I will examine primary and secondary sources, texts, media and other resources that contain evidence for and evidence against the existence of a negative change in business relations as a result of anti-Japanese sentiment. As this study does not include empirical analysis, I have not specified a time period within which to gauge “impact,” but the evidence given in this paper is taken primarily from within the last five years, since the turn of the century.

Now that the terms are defined, a survey of the conceptual frameworks that underlie this analysis serves to clarify the arguments in the ensuing analysis.

## CONCEPTUAL FRAMEWORKS

In the study of anti-Japanese sentiment and its possible effects on business transactions, several overarching concepts and themes form the basis for a critical discussion of these issues. What is national identity, and how does Chinese national identity influence social attitudes and behavior? How then does rational choice provide a different stimulus for behavior? An examination of these conceptual frameworks will guide the analysis of anti-Japanese sentiment's impact on Sino-Japanese business relations.

### **National identity**

National identity is a form of social identity;<sup>36</sup> thus any discussion of national identity must begin with a discussion of social identity. Simply defined, social identity is a sense of self in relation to others.<sup>37</sup> Social identity theory, derived from social psychology research, examines the concept of self as defined by membership in various social groups, such as race, class, gender, political affiliation, hobby, and nation. Social identity, then, is the “frame of reference that [individuals] possess as part of the repertoire of who they are and *want to appear to be*”<sup>38</sup> within their own social groups and vis-à-vis other social groups. This social

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36 Carvalho and Cook, 5.

37 Carvalho and Cook, 6.

38 Italics added – Americus Reed II, “Social Identity as a Useful Perspective for Self-Concept-based Consumer Research,” *Psychology & Marketing*, March 2002, Vol. 19, Iss. 3. Accessed March 26, 2005. Available from ABI/INFORM Research, p. 255.

aspect of identity therefore leads the individual to “adopt a social identity... for impression-management purposes”<sup>39</sup> as one of the motivators of social behavior.

As a form of social identity, national identity is based on the social category of nation. The nation becomes a basis for identity, self-esteem and belonging when the nation “achieves personal relevance” for individuals through some form of sentimental attachment.<sup>40</sup> This personal attachment and identification with the nation then motivates individuals to behave loyally toward their nation because it affirms their view of themselves individually and as part of a group. Individuals essentially “internalize the norms and role expectations of the nation,”<sup>41</sup> which then drives their social behavior accordingly.

National identity forms the basis for explaining the social expression of anti-Japanese sentiment. First, a higher level of national identity salience in certain contexts is a key factor in motivating nationalistic action. Second, the desire to validate one’s national identity drives behavior that demonstrates the socially expected animosity toward Japan both to oneself and to fellow citizens. Finally, the opportunity to demonstrate publicly that anti-Japanese sentiment has practical consequences, as a means to directly or indirectly confront Japan on these issues, is also an important factor driving the social expression of Chinese national identity. In the following, I describe these elements in more detail.

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39 Reed, 255.

40 Daniel Druckman, “Nationalism, Patriotism and Group Loyalty: A Social Psychological Perspective,” *Mershon International Studies Review*, April 1994, Vol. 38, No. 1. Accessed March 26, 2005. Available from JSTOR, p. 44.

41 Ibid.

First, the concept of salience is important in understanding how national identity drives the social expression of anti-Japanese sentiment. The term *salience* is used by social psychologists to refer to the degree to which a specific form of social identity is activated and prevalent in an individual's working self-concept.<sup>42</sup> Certain forms of social identity may be particularly salient in certain contexts, such as the fact that Chinese women may be more aware of their Chinese identity when traveling abroad but be more attune to their womanhood when in a room full of men. As such, national identity is at various levels of salience depending on the context, generally at lower levels on a day-to-day basis but easily heightened by special events such as the World Cup or national commemoration days, or worse, by perceived external threats to the nation such as the 9/11 terrorist attack was for Americans.<sup>43</sup> As follows, the more salient an identity, the more likely it is to lead to behavior consistent with that identity.<sup>44</sup> Daily, subtle reminders of national identity are unlikely to motivate action, but at stronger levels of salience, the Chinese are more likely to be moved to action that reflects their national identity<sup>45</sup> – such as anti-Japanese behavior.

Second, national identity shapes social norms and expectations, which in turn dictate the ways national identity is expressed in behavior. As a form of social identity, national identity compels individuals to act in ways that

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42 Reed, 255.

43 Carvalho and Cook, 9.

44 Ibid.

45 Ibid.

demonstrate loyalty to their nation, both for one's own self-affirmation and for social approval – indeed, for “impression-management purposes,” as earlier stated. In the context of Chinese national identity, expressing antipathy toward Japan has become a social norm, outside of which any positive attitudes toward Japan are commonly shot down, shunned, or even threatened by vocal nationalist groups within Chinese society. Acting to oppose or protest against Japan has thus become a way for the Chinese to collectively validate their national identity.

Another angle on the way social expectations link to expressions of national identity can be found in social desirability bias in market research. Social desirability bias is defined as “a bias in subjects’ responses caused by the individual respondent’s desire, either consciously or unconsciously, to conform to the actual, or perceived, values of the society... to which they belong.”<sup>46</sup> In the context of Chinese national identity vis-à-vis Japan, the existence of social desirability bias would thus suggest that when Chinese subjects of market research are asked about their attitudes and behavior toward Japan, they are likely to cite negative attitudes and behavior so as to reflect the anti-Japanese social norms surrounding Chinese national identity.

Finally, an undercurrent of activism against Japan is also present in statements or actions that express anti-Japanese sentiment as part of Chinese national identity. Various Chinese actions criticizing Japan, whether through

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<sup>46</sup> Bruce Keillor, Deborah Owens, and Charles Pettijohn, “A Cross-Cultural/Cross-National Study of Influencing Factors and Socially Desirable Response Biases,” *International Journal of Market Research*, First Quarter 2001, Vol. 43, Iss. 1. Accessed April 17, 2005. Available from ABI/INFORM Research, p. 64.

organized protests or statements in the media, have taken on the undertones of a broader social movement that aims to call Japan to task for its perceived whitewashing of World War II transgressions. Indeed, national identity has driven the Chinese to seek to “transform the social order”<sup>47</sup> – the social order in this case being Japan’s attitude toward its World War II history – by taking advantage of public forums to make a statement or an impact. In this way, Chinese national identity motivates anti-Japanese activism to prove a point – that Japan’s actions in World War II have consequences that Japan must address.

National identity is thus a key driver of social behavior. Salience, social validation, and the activist motivations associated with national identity together compel behavior consistent with national identity. Next, we examine the role of rational choice as a foundational framework for behavior.

### **Rational choice**

While national identity drives behavior in social contexts, decision-making that affects only the few decision makers involved tends to be driven less by national identity and more by rational choice. In rational choice theory, individuals aim to maximize the rewards or utility to be gained from a certain decision by weighing the benefits against the costs (including foregone

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<sup>47</sup> The goal of social movements is to “transform the social order,” according to Robert V. Kozinets and Jay M. Handelman, “Adversaries of Consumption, Consumer Movements, Activists and Ideology,” *Journal of Consumer Research*, December 2004, Vol. 31, Iss. 3. Accessed April 17, 2005. Available from ABI/INFORM Research, p. 691.

opportunity costs).<sup>48</sup> Such benefits and costs are measured in material value, social/relational value, and moral value (“doing the right thing”),<sup>49</sup> and are accrued to the individual decision makers themselves.

It can be argued that expressing national identity, as discussed above, is also a form of rational choice. In less public contexts, however, where decisions affect primarily the decision makers themselves and not others, rational choice can override national identity as a motivating factor behind the action taken. For example, in consumer purchasing decisions, choosing place of employment, or conducting business transactions, the outcomes affect the decision makers much more than they affect any others in the community; thus, national identity is less salient, while a pragmatic evaluation of cost and benefit for the decision makers themselves becomes much more prominent in determining behavior.

National identity and rational choice are thus two distinct conceptual frameworks that motivate behavior in different contexts. These frameworks now provide a lens through which to examine the evidence available. Has anti-Japanese sentiment impacted Japanese business relations in China in recent years? The evidence can seem contradictory, as we shall see.

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48 Linda K. George, “Rational Choice Theories, Contributions and Limitations,” *Journal of the American Society of CLU & ChFC*, September 1998, Vol. 52, Iss. 5. Accessed March 26, 2005. Available from ABI/INFORM Research, p. 32.

49 Ibid.

## *Chapter 2: Evidence*

### **FOR: ANTI-JAPANESE SENTIMENT HAS IMPACT**

Public displays of anti-Japanese sentiment have become one of the defining characteristics of Chinese nationalism today. Against a backdrop of unresolved historical grievance and present-day strategic rivalry, Japan has become a natural target for demonstrations of a new Chinese patriotism built at once upon residual feelings of victimization and a rising sense of supremacy in the region and the world. This widespread exhibition of animosity toward a common enemy serves as a powerful bond of unity for the Chinese as their country emerges from its century of humiliation to face the world again.

Beyond the political sphere, anti-Japanese nationalism has seemed to infiltrate business relations between the two economic pillars of East Asia. Even as Japanese trade and investment in China has increased steadily on a macroeconomic level, strong negative feelings toward Japan have generated a host of unanticipated risks for Japanese firms doing business in China. While Japanese companies have been relatively successful thus far in navigating this “minefield of sensitivities,”<sup>50</sup> a closer look at the points of contact between anti-Japanese sentiment and Japanese business activities in China would shed light on

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50 Yukari Iwatani Kane, “Japanese goods battle history in China,” *Reuters UK*, October 8, 2004. Accessed October 16, 2004. Available from [http://www.dailytimes.com.pk/default.asp?page=story\\_10-10-2004\\_pg5\\_28](http://www.dailytimes.com.pk/default.asp?page=story_10-10-2004_pg5_28).

the nature of anti-Japanese sentiment and its impact on Japanese firms' business relations in China.

## **Cases**

### *Public Relations Crises*

Despite the general success of Japanese firms in China, the occasional missteps have attracted much attention in the media and highlighted perceived difficulties faced by Japanese firms in the Chinese market. These incidents, spanning a range of industries and reflecting varying degrees of gravity, point to an undercurrent of latent Chinese hostility toward Japan that is readily ignited, turning what are typically minor glitches in consumer relations into full-scale public relations nightmares for Japanese firms in China.

One of the earliest examples of Japanese firms' mishaps in China was the "Toshiba Incident" of 2000. After defects were found in some Toshiba laptop computers in the U.S., the Chinese public angrily accused the Japanese company of racial discrimination when American consumers were compensated but Chinese consumers were not. Toshiba explained that the same problem did not apply to laptops purchased in China, but the statements failed to mollify the Chinese public, whose outrage was nurtured by inflammatory Chinese media coverage on the issue. Toshiba's share of the Chinese laptop market proceeded to fall from 19.4% in the first quarter of 2000 to 15.4% in the second quarter, dropping over a one-year period from first to third place in market share behind

competitors Legend and IBM.<sup>51</sup> The case also became one of the first to compel Chinese consumers to question the worldwide perception of the superior quality of Japanese products.<sup>52</sup>

Following Toshiba, the auto maker Mitsubishi came under fire in December 2000 for brake defects in its Pajero sports utility vehicle (SUV) models that allegedly sent one woman into a coma after her Pajero crashed. The Chinese press eagerly pounced on the incident and accused the car maker of lack of response to consumer complaints leading up to the accident and lack of subsequent action to compensate Pajero owners for losses.<sup>53</sup> Mitsubishi, for its part, claimed that the problem was caused by the improper reassembly of cars smuggled into China, a widely known phenomenon, but the explanation did not relieve the company from a two-year import ban that the Chinese government subsequently slapped on Pajero vehicles.<sup>54</sup> The Mitsubishi episode has been followed by a series of Chinese market recalls by other Japanese auto makers, including Nissan, Honda and Isuzu,<sup>55</sup> related also to vehement Chinese market reaction against Japanese product deficiencies.

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51 "Toshiba Notebook Sales Decline Due to Compensation Refusal," *People's Daily Online*, December 20, 2000. Accessed March 12, 2005. Available from [http://english.people.com.cn/english/200012/19/eng20001219\\_58224.html](http://english.people.com.cn/english/200012/19/eng20001219_58224.html).

52 Peter Morris, "Car recalls threaten Japan's reputation in China," *Asia Times Online*, March 6, 2004. Accessed March 12, 2004. Available from <http://www.atimes.com/atimes/China/FC06Ad03.html>.

53 Morris.

54 Michael Backman, "Bad memories stir Japan in chase for China," *Asia Online*, February 23, 2005. Accessed March 12, 2005. Available from <http://www.theage.com.au/news/Business/Bad-memories-stir-Japan-in-chase-for-China/2005/02/22/1109046913810.html?from=moreStories&oneclick=true>.

55 Morris.

Japan Airlines (JAL) was next to take a beating in the China market. In January 2001, Flight 782 from Beijing to Tokyo was diverted to Osaka airport due to heavy snow conditions at Narita. Ninety Chinese passengers who spent an uncomfortable night at the airport filed a complaint against the airline alleging poor service and discriminatory maltreatment, as other passengers were allowed to leave the airport while the Chinese passengers alone were detained.<sup>56</sup> JAL explained that the Chinese passengers were not permitted to leave the airport because they did not have visas for entry into Japan, since Tokyo had been only a layover on their way to the United States.<sup>57</sup> Nevertheless, to avoid further conflict, the airline paid an “appropriate,” unspecified amount to the Chinese passengers as compensation and committed to providing improved services for Chinese passengers in the future.<sup>58</sup>

Later in 2001, Matsushita Electric committed the faux-pas of selling Panasonic phones in China with software that referred to Taiwan as an independent country. Matsushita recalled the phones and was rumored to have been banned from the China market for at least a year. The Japanese mobile

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56 “Japan Airlines Apologizes to Chinese Passengers,” *People’s Daily Online*, July 5, 2001. Accessed March 12, 2005. Available from [http://english.people.com.cn/english/200107/05/eng20010705\\_74243.html](http://english.people.com.cn/english/200107/05/eng20010705_74243.html).

57 *Chugoku Kankei Onrain Nihongo Sougoushi* [Japanese-Language Online Magazine on Relations with China] (accessed March 12, 2005); available from [http://www.come.or.jp/hshy/bknum/2001\\_02c.html](http://www.come.or.jp/hshy/bknum/2001_02c.html).

58 “Japan Airlines Official Apologizes to Chinese Passengers,” *People’s Daily Online*, July 30, 2001.

phone maker indicated concern about the impact of this political gaffe on profits, as China was soon to become the single largest market for mobile phones.<sup>59</sup>

Advertisements by Japanese companies that “inadvertently offended [Chinese] national pride” have generated the latest public relations flare-ups. In late 2003, Toyota suffered a barrage of criticism when two of its ads for its Prado SUV were interpreted to be flaunting Japanese superiority over the Chinese. One ad depicted a Toyota Land Cruiser towing a broken-down truck resembling a Chinese military vehicle up a rocky incline – suggesting Japanese military superiority, critics claimed. A second ad showed a stone lion, a traditional symbol of Chinese authority, saluting the “Prado” (translated “Badao,” or “domineering” in Chinese) SUV, which again was interpreted as demonstrating Chinese submission to a dominant Japan. Both ads touched upon sensitive themes given Japan’s militaristic past. Despite the uproar, however, the incident was not expected to affect Toyota’s sales,<sup>60</sup> though Toyota did withdraw the ads and issue an apology thereafter through its Chinese website.<sup>61</sup>

Most recently, Nippon Paint ran an ad concept in the September 2004 issue of the *International Advertising* magazine that managed to offend Chinese consumers before the ad ran officially. The ad showed a “sculptured dragon unable to keep its grip on a pillar coated in Nippon Paint’s smooth wood-coating

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59 “China Denies Matsushita Ban,” *BBC News*, September 6, 2001. Accessed January 8, 2005. Available from <http://news.bbc.co.uk/1/hi/business/1528031.stm>.

60 “Toyota Ads Draw Fire,” *Shanghai Daily*, December 5, 2003. Accessed January 8, 2005. Available from <http://www1.china.org.cn/english/BAT/81597.htm>.

61 Kane.

paint.” The unintentional implication that a symbolic creature of China could be so easily defeated by a Japanese product unsettled Chinese readers of the magazine and forced the advertising agency who had created the ad concept to issue an apology.<sup>62</sup> Once again, the slightest suggestion of offense related to politics or history raised Chinese sensitivities to the fore.

Yet for a Japanese company, no action at all is necessarily required to incite Chinese consumer distrust and subsequent negative publicity. In August 2004, Chinese media criticized the Beijing government for buying printers from Fuji Xerox to print new identification (ID) cards for Chinese citizens. The criticism reflected the fear of some that personal information would leak to the Japanese printer manufacturer, even though Fuji Xerox would have no contact with the printers after sale. For others, meanwhile, the thought of even carrying Japan-made ID cards was “unendurable” as a Chinese citizen.<sup>63</sup>

The examples above reveal a common thread. Even though it can be assumed that no profit-minded company would intentionally swindle or discriminate against its customers, Chinese consumers consistently projected the worst of intentions onto the Japanese companies in each of these cases. Despite reasonable explanations given by Japanese firms for the circumstances, Chinese consumers typically assumed that racial discrimination was the key driver of

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62 Nat Ives, “A Dragon in a Paint Ad Created Heat, but of an Unintended Sort,” *The New York Times*, October 4, 2004. Accessed March 12, 2005. Available from <http://query.nytimes.com/search/restricted/article?res=F40816FF3A5C0C778CDDA90994DC404482>.

63 Kentaro Kurihara, “Beijing Rapped for Japanese Printers,” *Asahi Shimbun*, August 28, 2004. Accessed January 8, 2005. Available from <http://www.asahi.com/english/business/TKY200408280196.html>.

Japanese actions in each case. Irregardless of the merits of these complaints, the Japanese companies in each case suffered the consequences of damaging publicity and paid a price to mollify their irate Chinese customers. Amidst the strongly emotional reactions of Chinese consumers to the innocent missteps of Japanese firms, the shadow of a bitter history cannot be missed.

*Animosity Model of Foreign Product Purchase*

Despite evidence that Chinese consumers display unusual hostility toward Japanese firms when dissatisfied with a product or service, Sino-Japanese trade figures indicate that Chinese consumers are still buying Japanese products in spite of their animosity. If not animosity but perceptions of product quality ultimately determine Chinese consumer behavior at the point of purchase, then can anti-Japanese sentiment truly be said to negatively impact Japanese business in China?

A study of Nanjing consumers in 1998<sup>64</sup> set out to investigate this very linkage between animosity toward an “enemy” nation and consumer purchasing behavior toward products originating from that nation. Animosity here was defined as being country-specific and able to be harbored against an “enemy” nation whilst still believing that that nation’s products are of high quality. Would animosity toward Japan negatively affect Nanjing consumers’ purchase of Japanese products, independent of their perceptions of Japanese goods’ product quality?

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<sup>64</sup> Klein, Ettenson, and Morris.

The study, conducted by approaching strangers on the street, measured consumer attitudes toward Japanese product quality, willingness to buy Japanese products, consumer ethnocentrism, animosity toward Japan generally and war and economic animosity in particular. Respondents were asked also to indicate the country of origin of the products they owned, including televisions, VCRs, stereos, radios, cameras and refrigerators, as these were products that Chinese consumers likely owned and for which Japanese brands were prominent.

The researchers Klein, Ettenson and Morris found that consumer animosity toward Japan was indeed negatively correlated with willingness to purchase Japanese products. Moreover, this reluctance to buy Japanese goods was independent of perceptions of product quality, since Chinese consumers viewed the quality of Japanese goods favorably regardless of the consumer's level of animosity. Rather, it was the consumer's attitude toward Japan, not the perception of product quality, that determined whether the consumer would buy Japanese products. "Apparently, consumers were able to acknowledge the quality of goods from a target country while expressing hostility toward and a marketplace aversion to products from that country."<sup>65</sup> Importantly, the nature of the animosity was found to be centered on historical and war-related factors rather than a sense of economic rivalry with Japan.<sup>66</sup>

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<sup>65</sup> Klein, Ettenson and Morris.

<sup>66</sup> Ibid.

As a caveat, this study was conducted in the city of Nanjing where memories of Japanese atrocities were most prevalent. Thus, conclusions drawn from this study may not extend beyond Nanjing to encompass consumers in other parts of China. Nevertheless, this study provides evidence that anti-Japanese sentiment based on political and historical grievances can indeed have an impact on the sphere of Japanese business operations in China.

#### *Beijing-Shanghai High-Speed Railway*

One of the most salient examples epitomizing the impact of anti-Japanese sentiment on Japanese business in China is the story of the bids for the Beijing-Shanghai railway.

Over the past few years, Japan, France and Germany have competed to win a \$15 billion dollar bid to construct a high-speed railway connecting Beijing and Shanghai. Japan, represented by the Japanese Shinkansen group, had been favored by the Chinese government for its advanced technology and compatibility with Chinese needs. Indeed, while not quite as fast as the TGV (Train à Grande Vitesse) of France, the Japanese system comes with the most sophisticated safety mechanisms to support its speed – and safety was a critical component for a railway that would connect two of China’s most densely populated cities. Thanks again to its built-in safety system, the Japanese Shinkansen also enables shorter time intervals between trains, providing for the

efficient transport of more people at a faster rate – another key feature that made the Japanese system attractive for a populous nation like China.<sup>67</sup>

Japan's bid was not to be as successful as anticipated, however. In July 2003, anti-Japanese internet activists submitted a petition with more than 87,000 signatures protesting the Japanese bid for the railway project. China's railway ministry was forced to reconsider its preference<sup>68</sup> and has reportedly shifted its favor to France's Alstom SA, the manufacturer of the French TGV. Negotiations are still in progress, but the Chinese government is now privy to potential consequences for giving the bid to Japan.<sup>69</sup>

Of course, while Chinese public opinion is indeed of import, other considerations will also factor into China's final decision on the Beijing-Shanghai railway. First, price: Japan's bid was the most expensive of the three because of its advanced technology, according to a Japanese official familiar with the project. Always sensitive to price, the Chinese government has also considered adopting its own "China Star," a technology developed on its own with the help of Germany – the least costly option. Moreover, the Chinese government recognizes that its choice of partner in a project of this magnitude would be a strategic decision to foster greater cooperation with the chosen party. Given the choice between building stronger ties with Europe or with Japan, which would be

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67 Interview with Japanese negotiator in the Beijing-Shanghai railway bid, February 3, 2005.

68 Charles Hutzler, "Yuppies in China Protest Via the Web -- And Get Away With It; Nationalistic Dissidents Press For Hard-Hitting Policies On Japan, Taiwan, U.S.," *Wall Street Journal*, March 19, 2004. Accessed January 7, 2005. Available from ProQuest.

69 Interview with Japanese negotiator in the Beijing-Shanghai railway bid, February 3, 2005.

of higher priority for the Chinese government? Finally, the Chinese government has also considered combining various aspects of technology from all three countries, in consideration of the practical potential for long-term technology transfer and the benefits of maintaining technology relationships with all three contenders, the Japanese official said.

Nevertheless, the influence of anti-Japanese sentiment in the government's decision constituted measurable damage to Japan's bid in this strategic, multibillion-dollar project. Interestingly, it was not the Chinese government officials themselves who exhibited anti-Japanese attitudes in considering Japan's bid, but rather, the officials were constrained by anti-Japanese public opinion – a curious phenomenon in a Communist state. As Chinese Vice Minister for Foreign Affairs Wu Dawei stated, the Chinese government recognizes the superiority of Japan's technology, but found it difficult to adopt because of the political environment.<sup>70</sup> Thus, in this scenario, anti-Japanese sentiment played a direct role in shaping Japanese business relations in China.

#### *Mass demonstrations*

Finally, the recent anti-Japanese protests in China presents perhaps most plainly the link between political tensions and business relations. Tens of thousands of protesters across China marched for three consequent weekends in

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<sup>70</sup> Melody Chen, "China seeks to punish Japan over Lee visit," *Taipei Times*, December 31, 2004. Accessed March 17, 2004. Available from <http://www.observerindia.com/ccs/news/ch050103.htm>.

April 2005, with tacit permission from the Chinese government, to protest historically-rooted grievances against Japan's attempts to claim a place in the world of the future amidst its perceived lack of acknowledgment of its past. Specifically, the protests were directed against Japan's bid for a seat on the UN Security Council, new textbooks that allegedly whitewashed Japanese atrocities in the war, and territorial disputes in the East China Sea.

While the grievances themselves were of a political nature, angry protesters attacked or resisted all things Japanese, which made Japan's commercial presence in China an easy target. Demonstrators called for boycotts of Japanese goods, backed up by action such as a trade group representing Chinese chain stores asking its members to stop selling Japanese beer, coffee and other products as part of the protest.<sup>71</sup> While protesters "threw stones, eggs and plastic bottles and broke windows" at Japanese Consulates, they also vandalized Japanese-affiliated stores and damaged Japanese-made cars.<sup>72</sup> Protesters were warned "not to carry any Japanese cameras or other electronic goods" to the rallies.<sup>73</sup>

Besides threats to Japanese goods and services directly, the protests have also threatened the overall business environment for Japanese firms in China. A lawyer who conducts transactions for Japanese firms in China commented that

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71 Walter J. Keegan, Jr., "Anti-Japanese sentiment curtails Honda's trips to China," *Autoblog*, April 7, 2005. Accessed April 25, 2005. Available from <http://www.autoblog.com/entry/1234000787039270>.

72 "New anti-Japan protests erupt as Japan's FM in China," *USA Today*, April 17, 2005.

73 Joseph Kahn, "Beijing Moves to Rein In Anti-Japan Demonstrations," *The New York Times*, April 15, 2005. Accessed April 15, 2005. Available from <http://query.nytimes.com/gst/abstract.html?res=F30C15FC3A5A0C768DDDAD0894DD404482>.

those Chinese who work for Japanese companies have felt especially uneasy over the last weeks due to the stigma of association with Japan,<sup>74</sup> which could affect Japanese firms' retention of talent in China. Ease of communication and transaction may also be affected, as Honda's president announced that the company was cutting back on business trips to China, while other companies stuck to original plans but said they would pay extra attention to safety.<sup>75</sup> Japanese expatriates have been leaving the country for the time being in fear of possible violence, and business has been down, according to *The Japan Times*.<sup>76</sup> While Japanese auto makers' sales have yet to be affected, these companies are wary of problems in the future should the unrest continue, the *Associated Press* reported.<sup>77</sup> In these ways, the anti-Japanese protests clearly demonstrate that Chinese anti-Japanese sentiment can indeed spill over to the commercial realm.

### **In the Media**

Beyond specific cases, the media has also been a rich source of secondary evidence for the effects of politics on the business sphere of Sino-Japanese relations. From the picture painted by sources in Chinese, Japanese and western

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74 Interview over the phone, conducted April 24, 2005.

75 "Protests not affecting China sales," Associated Press, reprinted by Autonet.ca, April 21, 2005. Accessed April 25, 2005. Available from <http://autonet.ca/News/Story.cfm?Story=/News/2005/04/21/1006907.html>.

76 "More protests erupt in China," *The Japan Times* (compiled from AP, Kyodo), April 17, 2005. Accessed April 18, 2005. Available from <http://www.japantimes.co.jp/cgi-bin/getarticle.pl5?nn20050417a1.htm>.

77 Ibid.

press, anti-Japanese sentiment seems to have significant influence on Japanese business in China.

Indeed, Japanese firms seem to be well aware of the business risks they suffer in China. According to a survey cited in the *Asahi Shimbun* of major Japanese companies doing business with China conducted by the French bank Credit Lyonnais in December 2003, 80 of 200 respondents indicated that political tensions were negatively affecting business in China.<sup>78</sup> “We have to operate under the premise that there is anti-Japanese sentiment,” according to Shoichi Yamamura, executive officer in charge of advertising giant Dentsu's China/Asia operations, cited in *Reuters*.<sup>79</sup>

One of the most prominent focal points of anti-Japanese sentiment has been Japanese Prime Minister Junichiro Koizumi's visits to the Yasukuni Shrine. According to various media sources, these visits have negative repercussions on the Sino-Japanese relationship that extend to the business realm as well. Kitashiro Kakutaro, chairman of the Japan Association of Corporate Executives, was quoted in *The New York Times* as stating in public that Koizumi's Yasukuni Shrine visits “could spread negative news about Japan and cause adverse effects on Japanese companies' activities” in China.<sup>80</sup> Another nameless Japanese executive in China was quoted by *Reuters* with a similar complaint: “We are trying

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78 “Japan-China Business Relations,” *Asahi Shimbun*, May 18, 2004 (hard copy available upon request).

79 Kane.

80 Onishi.

our best at the private sector level to improve relations with China ... but all those efforts go up in smoke because of what Koizumi does one day of each year.”<sup>81</sup>

Japan’s liberal newspaper, the *Asahi Shimbun*, also cites dissatisfaction with their prime minister. One article stated bluntly that Japanese executives were becoming increasingly impatient with Koizumi’s “stubborn attitude” toward his Yasukuni visits. A researcher at a major Japanese bank specializing in business relations with China was quoted in the same article with the disapproving observation that Koizumi “seems not to care how his visits to the Yasukuni Shrine affect Japan-China relations because he thinks someone will take care of the mess.” Another top manager of an electronics manufacturing company was also cited calling Koizumi “the greatest risk factor affecting Japan’s business with China.”<sup>82</sup>

Media articles point also to the impact that anti-Japanese sentiment has on the ability of Japanese firms to attract China’s top talent. A Chinese website “China In Transition” cited a survey by China HR.com polling Chinese university students about their top choices of firms for employment. The survey found that Japanese firms were generally less popular than their western counterparts, with only Sony, Matsushita Electric and Toyota making it into the ranks of the top 50,<sup>83</sup> and that the popularity rankings of even these firms have dropped since

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81 Kane.

82 “Japan-China Business Relations,” *Asahi Shimbun*, May 18, 2004.

83 Chi Hung Kwan, “Why Japanese Firms Are Unpopular,” *China In Transition*, April 2, 2003. Accessed December 11, 2004. Available from <http://www.rieti.go.jp/en/china/03040201.html>.

2003<sup>84</sup> (see Table 1, Appendix). Although factors such as the exclusivity of Japanese corporate management and the seniority-based, egalitarian-pay system in Japan were also cited as reasons for the unpopularity of working for Japanese firms in China, anti-Japanese sentiment was cited to be an insidious contributor to this unpopularity, one that required Japanese firms to work extra hard relative to their western counterparts to attract the best human resources talent in China.<sup>85</sup>

According to sources cited in the media, another disadvantage Japanese firms face in the China market is simply the lack of goodwill that Chinese consumers harbor toward Japanese products and services. While Chinese consumers will still buy Japanese goods due to their high quality, they are prone to react strongly to any perceived offense, as shown earlier. *Reuters* quoted a China-based U.S. public relations executive with experience in Japan who explained that Japanese firms have to be extra careful. “It’s almost like they’re watching for Japanese companies to stumble,” he said, suggesting that U.S. firms would have been treated less harshly than Japanese firms had they made similar

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84 “Article alerts China-Japan relations to changes,” *People’s Daily Online*, December 24, 2004.

85 Chi Hung Kwan, “Persistent Anti-Japanese Sentiments Heighten the Risks for Investment in China - Striving for a Virtuous Cycle between Economic and Political Sino-Japanese Ties,” *China In Transition*, September 8, 2004. Accessed December 13, 2004. Available from <http://www.rieti.go.jp/en/china/04090801.html>.

mistakes.<sup>86</sup> As one journalist summed up aptly, “When [Japanese firms] get into trouble, it typically costs more to get out of it.”<sup>87</sup>

One way that Japanese firms have relied on to assuage relations with the Chinese public is to actively make social contributions in China to improve their image. “[Japanese companies] need to invest considerably more in corporate social responsibility programs than their Western counterparts and work hard to appear less Japanese and more international,” according to an *Asia Online* article<sup>88</sup> citing a managing director of a western public relations firm in Beijing. An article in the *People’s Daily* also alluded to the extra effort that Japanese firms make in “investing in education, setting up scholarships, [and] getting involved in greening and forestation” in China to improve consumer relations there.<sup>89</sup>

This same article claimed that the effects of anti-Japanese sentiment are being reflected at the macroeconomic level as well. While the absolute value of Sino-Japanese trade has been increasing, a slowdown in growth has caused the volume of China-Japan trade to fall behind China-US and China-EU trade, the article stated. “China-Japan trade has grown by 26% this year but the growths of trade between China and other countries (regions) have all exceeded 30%,” the article cited the Chinese Minister to Japan Cheng Yonghua as saying.<sup>90</sup>

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86 Kane.

87 Backman.

88 Ibid.

89 “Article alerts China-Japan relations to changes,” *People’s Daily Online*, December 24, 2004.

90 Ibid.

Clearly, the media has provided ample evidence to support the impact of anti-Japanese sentiment on Japanese business relations in China. The recent public relations crises of Japanese firms in China, the study of Chinese consumer behavior in Nanjing, the case of the Japanese bid for the Beijing-Shanghai high-speed railway, and the recent mass demonstrations have also supported the argument that anti-Japanese sentiment has impact in the business sphere. In the following section, however, I present contrary evidence showing that the political dimension of the Sino-Japanese relationship has in fact had very little influence on business relations between the two nations. Let us examine.

#### **AGAINST: ANTI-JAPANESE SENTIMENT DOES NOT HAVE IMPACT**

Anti-Japanese sentiment in China has indeed intensified in the seventy years since the symbolic Rape of Nanjing. According to highly publicized cases and other accounts in the media, it would seem that this historical animosity has moved beyond the political sphere to infiltrate Japanese business operations in China as well. Whether through the numerous public relations disasters Japanese companies have faced, the consumer avoidance of Japanese products in Nanjing, the internet protests against the Japanese bid to the Beijing-Shanghai railway, or the recent mass demonstrations against Japan, the Chinese people seem to be demonstrating their anti-Japanese sentiment by deliberately attacking Japanese business presence in China.

Standing in stark contrast to such accounts, however, are the increasing levels of trade and investment between the two countries over this same period. Even as political ties deteriorate and tensions mount, quantitative data on trade and investment demonstrate that Japanese companies have steadily continued in the expansion of their business operations in China. Perspectives from practitioners and experts in Sino-Japanese business relations, collected through telephone interviews and written surveys, also deviate from the assertions of negative political impact on business as expressed by pundits cited in the media. Moreover, Chinese attitudes toward American and other non-Japanese foreign companies in China seem similarly unaffected by nationalistic sentiment, again showing that politics seems to be relatively separate from business. Indeed, with such vibrant economic activity between China and Japan, can it be said that political tensions are poisoning business relations? The following evidence paints a different portrait of the influence, or lack thereof, of anti-Japanese sentiment on Sino-Japanese business relations.

### **Facts & Figures**

In spite of general consternation over deteriorating political relations between the two great powers of Asia, bilateral trade and investment could always be counted on to remain a bright spot in Sino-Japanese relations. Since the opening of the Chinese economy in the early 1990s, trade between China and

Japan has increased at an average of 16% per annum,<sup>91</sup> exceeding the growth of China's external trade over the same period (15%).<sup>92</sup> Japan became China's largest trading partner in 1993 and has sustained this status through 2003, only last year exceeded by the U.S. and the European Union. Meanwhile, China has leapfrogged the U.S. to become Japan's largest trading partner in 2004.<sup>93</sup> Despite political tensions, the two countries have maintained a brilliant economic relationship.

Economic ties between China and Japan have been so brilliant, in fact, that they have outshined those with other bilateral trading partners in resilience and rapidity of growth over the last fifteen years. The two countries have maintained remarkably steady growth in trade through significant obstacles, such as Japan's economic slowdown during the 1990's, the Asian financial crisis, and various exchange rate fluctuations during 1998 and 2000, that would have typically damaged other trading relationships but hardly dented Sino-Japanese trade, which surged on as strong as ever.<sup>94</sup> According to He Liping of Beijing Normal University, the resilience of Sino-Japanese trade owes to the two countries' "special relationship" characterized by the complementarity in development and in product demand between China and Japan through the

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91 Statistics from 1990-2002.

92 He Liping, "Sino-Japanese Economic Relations: A Chinese Perspective," *China & World Economy*, No. 5, 2003. Accessed December 28, 2004. Available from [http://www.iwep.org.cn/wec/2003\\_9-10/heliping.pdf](http://www.iwep.org.cn/wec/2003_9-10/heliping.pdf), p. 11.

93 "Sino-Japanese trade, investment grow," *China Daily*, March 7, 2005. Accessed March 29, 2005. Available from [http://www.chinadaily.com.cn/english/doc/2005-03/07/content\\_422432.htm](http://www.chinadaily.com.cn/english/doc/2005-03/07/content_422432.htm).

94 He Liping, 12.

1990s. China's galloping economy generated an increasingly sophisticated consumer demand for Japan's high-end, high-tech products, while Japan along with other developed economies increased its demand for the low-cost, labor-intensive goods that have been China's specialty.<sup>95</sup> Nowadays, China offers Japanese companies low costs and an enormous market, while Japanese companies offer China advanced technologies and high-quality products. According to the *Economist*, the two economies are indeed "strikingly complementary," with "cheap Chinese goods delighting Japanese shoppers and sophisticated Japanese equipment humming away in Chinese factories."<sup>96</sup>

As part of this economic complementarity, China has benefited greatly from Japanese investment and aid through the years. Since as early as 1981, Japanese firms have contributed to the Chinese economy a total of \$36.34 billion in foreign direct investment (FDI) through 2002, making Japan China's largest foreign investor, according to the Chinese Ministry of Commerce.<sup>97</sup> Indeed, Japan's FDI and financial aid to China have consistently exceeded 10% of China's annual FDI inflow.<sup>98</sup> Moreover, unlike American companies' focus on the domestic market in China, Japanese investment has been export-oriented, thus facilitating China's export growth and helping to enhance the brand image of

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95 Ibid.

96 "So hard to be friends," *Economist*, March 23, 2005. Accessed March 23, 2005. Available from [http://www.economist.com/displaystory.cfm?story\\_id=3786409](http://www.economist.com/displaystory.cfm?story_id=3786409).

97 Macabe Keliher, "Part 3: Economics overrides anti-Japan sentiment," *Asia Times Online*, February 12, 2004. Accessed April 3, 2005. Available from <http://www.atimes.com/atimes/China/FB12Ad07.html>.

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“Made in China,”<sup>99</sup> which has also benefited China. Since 1990, Japanese FDI shifted notably to the manufacturing sector, with the electrical, machinery and textile industries benefiting most from this export-oriented FDI.<sup>100</sup> In addition to these industries, Japanese investment has also targeted the high-tech sectors, which has enabled the Chinese economy to enjoy the benefits of the “value-added manufacturing and management” that Japanese firms brought with them to China.<sup>101</sup> Finally, as is generally true with FDI, Japanese investment has helped the Chinese economy realize its comparative advantage in labor by creating jobs for Chinese workers<sup>102</sup> and has provided Chinese consumers with high-quality and diverse consumer goods. China has indeed benefited from its strong economic relations with Japan.

Japan has also thrived through its economic ties with China. Since Japan’s slump in the late 1990s especially, China has taken on ever greater importance to Japan as the primary driver of its economic recovery. Even as Japan’s exports to the U.S. have remained flat in recent years, exports to China have grown at a “blazing” rate of 30% per year.<sup>103</sup> Japanese companies have also begun shifting their focus to China since as early as the mid-1990s, with Japanese cars ramping up to represent 20% of China’s total auto production in 2004 and firms like

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99 Yuqing Xing, “Japanese FDI in China: Trend, Structure, and the Role of Exchange Rates,” March 2004. Accessed April 3, 2005. Available from [http://www.ij.ac.jp/faculty/xing/papers/FDI\\_JC\\_xing.pdf](http://www.ij.ac.jp/faculty/xing/papers/FDI_JC_xing.pdf), p.2.

100 Xing, 5.

101 Keliher.

102 Xing, 2.

<sup>103</sup> Fackler.

Matsushita, Komatsu, and Canon transferring large portions of their workforce and key personnel to their Chinese operations. China's economic importance to Japan can even be felt in the growing popularity of the Chinese language there, with Japanese parents increasingly demanding enrollment for their children in Chinese language schools and Chinese increasingly becoming the language of choice for Japanese students of international business. While the U.S. remains "big" for Japan, China's recent jump to become Japan's largest trading partner reflects its important role as the source of marginal growth for Japan, said Nicholas Lardy, senior fellow at the Institute for International Economics. Indeed, many in Japan expect China to be their biggest foreign market of the future.<sup>104</sup>

Of course, even this most complementary and harmonious aspect of Sino-Japanese relations – the economic ties – is not without its rough patches. In trade, the fact that China skipped over the U.S. to become Japan's largest trading partner the same year that Japan slipped from first to third place in China's trading partner rankings has been greeted in Japan with alarm over a potential 'China threat' arising from Japan's increased dependence on the Chinese economy.<sup>105</sup> Much fanfare has also accompanied the Japanese government's recent consideration of a possible reduction in ODA to China. Finally, periodic

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104 Fackler.

105 "Japan needs to see China as ally, not threat, economist says," *The Japan Times*, February 6, 2003. Accessed March 29, 2005. Available from <http://www.japantimes.co.jp/cgi-bin/getarticle.pl5?nn20030206d2.htm>.

trade disputes between the two countries seem to further taint the otherwise rosy picture of Sino-Japanese economic relations.

The very fact, however, that these particularly negative dynamics are highlighted in an otherwise rosy economic relationship itself presents a cause for examination. When these points of tension are placed in context, they are dwarfed by the tremendous resilience and potential inherent in Sino-Japanese economic relations. In response to the ‘China threat’ mentality, C. H. Kwan, senior fellow with the Research Institute of Economy, Trade and Industry, reminded the Japanese of the complementarity of China’s economy to Japan’s, adding that China was still far from direct competition with Japan in output.<sup>106</sup> Likewise, while the recent shift in trade partner rankings may seem dramatic, it is important to remember that this shift is an anomaly in Japan’s long and distinguished history as China’s largest trading partner. Just as importantly, it must be remembered that the rankings are only relative, and that growth in absolute trade volumes between the two countries have continued their breathtaking pace, surging 25.7% over the past year to reach US\$167.9 billion in 2004.<sup>107</sup> Similarly, any reductions in ODA must also be considered in the context of the enormous amount of aid Japan has given China over decades – “more than all other governments combined” and accounting for 60% of China’s ODA

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106 Ibid.

107 “Sino-Japanese trade, investment grow,” *China Daily*, March 7, 2005.

received.<sup>108</sup> Trade disputes, already minor in the big picture of Sino-Japanese relations, have “virtually disappeared” in recent years.<sup>109</sup>

In spite of the political vicissitudes of Sino-Japanese relations, economic ties between the two countries have remained steady and prosperous. Disturbances on the surface of trade or investment relations may seem suggestive of a downward trend, but they fade into obscurity when placed in context of the strong fundamental complementarities and the long, vibrant history shared by the Chinese and Japanese economies. While political tensions between these two great powers of Asia may seem sufficiently forceful to impact economic ties, the numbers, history, and complementarity supporting Sino-Japanese economic relations may provide the most convincing evidence of all for the resilience of business relations in the face of the acrimony of Sino-Japanese politics.

### **Interviews with Practitioners**

The facts and figures of Sino-Japanese economic relations indicate that politics seem to have little influence on business relations between the two countries. Beyond the facts and figures, however, what do the real people involved in Sino-Japanese business relations say about the impact of politics on their own day-to-day business dealings? Indeed, quantitative data, cases, theories and media reports are important as secondary sources, but the perspectives of

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108 Keliher.

109 “So hard to be friends,” *Economist*, March 23, 2005.

practitioners and experts in Sino-Japanese business are invaluable as primary sources on the impact of anti-Japanese sentiment in the business environment.

As part of my research, therefore, I conducted interviews with more than 15 practitioners in the field to understand their impressions of how political or historical tensions might play into their business interactions “on the ground” (see Table 2, Appendix). Respondents included Japanese and Chinese strategy and marketing executives of Japanese firms in China, as well as lawyers, government officials, public relations executives and journalists whose expertise involves Sino-Japanese business relations. The responses of these practitioners counter the media reports and provide further evidence for the resilience of economic and business relations to political tensions in Sino-Japanese relations.

The general consensus among my interviewees was that anti-Japanese sentiment had little impact on business transactions in China. According to Mr. Rong, a branch manager of a Japanese textile company near Shanghai, politics was but a distant echo in the profit-motivated business world of China. Incidents such as the commotion during the Asia Cup soccer games last summer or the Japanese prime minister’s annual visits to the Yasukuni Shrine belonged to the realm of media, said Rong, and had no effect on his daily transactions with Japanese customers. “The Japanese are here to make money and we are here to make money as well,” he stated matter-of-factly, confirming that he had good relations with his Japanese clients. Beyond basic cultural differences, no other differences existed between his interactions with Japanese clients and other

clients, as alignment of business interests was the most important element of cooperation, Rong indicated.

Mitsuo Yamaguchi, a senior strategy executive at Hitachi, presented a similar assessment. According to Yamaguchi, the Japanese identity of Hitachi as a company has neither helped nor hindered its successful operations in China to date. The actual benefits accrued the parties in a business transaction were much more important than considerations of a political nature, he stated. Such factors as brand recognition, the acquisition of top Chinese talent, and the cultivation of good relations with China were far more significant than the presence of anti-Japanese sentiment in determining a Japanese company's success in China.

Even in the highly politicized case of Japan's bid for the Beijing-Shanghai railway project, a Japanese negotiator in the project indicated that anti-Japanese sentiment was only one of many factors in the Chinese government's decision process. Among other considerations, the price, quality and suitability of the technology as well as the opportunity to develop strategic relationships with all the bidding countries were extremely important factors in Beijing's calculus. The Chinese government remains undecided on the Beijing-Shanghai line, but it has offered contracts for several local, mid-speed train lines to a consortium of Chinese-foreign joint venture firms that are well represented by Japan's Kawasaki Heavy Industries, the main manufacturer of the Shinkansen bullet train. Again, without the glare of publicity, Japanese companies seem to hum along fine in the Chinese economy.

While anti-Japanese sentiment is potent in China, practitioners argued that it has yet to damage relations in the business realm because of two important factors. First, Japanese firms in China have been successful in building top global brands. According to Edward Bell, chief of strategy planning at Ogilvy Public Relations, Japanese brands are well accepted in China not because of their Japanese country of origin, but because of their global appeal. Chinese consumers believe, for example, that Sony is “not really a Japanese brand, but a global brand,” he explained. Yamaguchi of Hitachi also stated that above all else, his company’s aim is to be a “number one global brand” because that status alone would trump all other determinants of success in the China market.

Second, many Japanese companies have cultivated friendly relations with China. Indeed, those companies that succeed in China are those that maintain strong relationships with the central and local governments, with other companies in China, and with the public, said Yamaguchi, citing Hitachi’s long history of good relations with China. When Japanese companies strive for win-win situations, they are successful in cooperation with Chinese companies because they think not only of their own gain, but also of how their Chinese partners can benefit from certain technology or business models, he said. Japanese companies have also been successful in efforts to increase presence and brand recognition among the Chinese public, Yamaguchi added, giving as an example a large-scale convention held by Hitachi last year in Beijing and Shanghai that helped raise the company’s profile in China. Such efforts to maintain a

positive relationship with China have certainly contributed to Japanese companies' success in the Chinese market.

Japanese companies have also met with difficulties in the China market due less to resistance from the Chinese public than to the peculiarities of Japanese business strategy. A Chinese marketing manager at another leading Japanese firm pointed out that Japanese companies tend to pay less attention than their western competitors to developing the marketing potential of their distribution channels. Japanese companies place more emphasis on manufacturing than marketing and tend to think that the quality of their products should sell themselves, he explained, citing Hewlett-Packard (HP), Nestle and Kodak as companies with better distributor cooperation than would the average Japanese company. As competition heats up with increasing numbers of local and western companies in the Chinese market, however, Japanese companies' lack of market development could become a disadvantage, he stated, adding that some Japanese goods may be priced too highly for the Chinese market, which could be one of the results of Japanese firms' lack of market research. These difficulties in understanding the Chinese market nevertheless originate with Japanese companies themselves rather than any anti-Japanese sentiment from the market.

Along similar lines, a practicing lawyer involved in risk mitigation for Japanese foreign-invested enterprises (FIEs) in China also indicated that Japanese firms were often guilty of not "doing their homework" on the Chinese environment sufficiently before entering. According to the lawyer, American and

European firms have a higher tendency to invest time and money into fully investigating the risks in China's business environment before entrance, while Japanese companies tend to be less prepared or knowledgeable about the legal, financial, political and other risk factors in the Chinese environment and thus run a higher risk of being "burned." In this way, Japanese firms disadvantage themselves in the China market, not because of anti-Japanese sentiment per se, but because of a tendency to neglect conducting due diligence on the China market prior to entrance.

Another issue that may present challenges for Japanese firms in China quite independently from any animosity factors is the ability of Japanese companies to hire and retain top Chinese talent for their operations in China. While Chinese media have alluded to anti-Japanese sentiment as a source of Japanese firms' unpopularity among Chinese talent, the practitioners interviewed place the blame more squarely upon the structure of Japanese companies themselves. Takaaki Taoka, vice consul of the economic division of Japan's consulate in Shenyang, China, explained that the lack of promotion opportunities for non-Japanese into the highest levels of management is one of the major disadvantages Japanese firms have in attracting high-level talent in China. Indeed, Japanese firms' orientation toward lifetime employment tends to reserve promotions to high-level posts for those Japanese who have shown dedication and loyalty to the firm over a long period, said Taoka. Moreover, Japanese is the

language commonly used in the highest echelons of a Japanese company, further discouraging non-Japanese from participation.

This exclusivity of top management in Japanese companies indeed differs from the practices of western multinationals. According to Taoka, European and American companies have no bias against promoting local personnel and paying them high salaries to become managers of subsidiaries in China, as long as they have shown themselves capable and their contributions are profitable for the company. Meanwhile, a Chinese manager within a Japanese firm mentioned that salary levels, training, and the rigidity of the work culture compared across companies may also make it less appealing to work for Japanese firms than western firms. With competition, therefore, Japanese companies often lose top talent to western firms in the high-turnover context of the Chinese labor market, Taoka stated.

While those interviewed affirmed that anti-Japanese sentiment generally has little influence on business transactions, they did mention two contexts that may be exceptions to the rule. First, when something goes wrong, Chinese ire can then be seen displayed in full force against Japanese companies, said executives at a leading Japanese firm. Second, when the project is large-scale, visible and therefore public, such as the Beijing-Shanghai railway, anti-Japanese sentiment can easily be brought to the fore and could have “spillover effects” on other Japanese companies in China, according to a senior reporter at the *Asahi Shimbun* familiar with Sino-Japanese business issues.

Both of these scenarios involve what I refer to as the “media risk” for Japanese companies in China. The media “agitates” Chinese antipathy against the Japanese, which can produce negative publicity for Japanese companies if not handled cautiously. Nevertheless, some Japanese companies have learned to cope with this “media risk,” such as the case of a Japanese executive who cautioned his employees to watch their behavior and refrain from getting drunk at the after-party of a public event so as not to provide material for “enthusiastic journalists.”<sup>110</sup> Indeed, the media is a force to be contended with in the Chinese business landscape, but one which Japanese companies are learning to handle.

The risks of negative publicity and the use of large-scale business projects as targets for animosity do seem to pose challenges for Japanese firms in China. However, practitioners working in Sino-Japanese business contexts “on the ground” almost unanimously emphasize the absence of anti-Japanese sentiment in their daily business considerations, citing the above challenges only as caveats to the rule. For these practitioners, pragmatic business interests dominate Sino-Japanese transactions, and practical strategies to develop global brands and maintain good relations with China have further banished the influence of anti-Japanese sentiment on their business relations. If Japanese companies face any difficulties in China that are unique to them, the problems appear to arise more from weaknesses in Japanese firms’ international business strategy than from any disadvantages wrought by the historical transgressions of their nation.

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110 Story related in an interview with an executive of a Japanese firm.

From these commentaries “on the ground,” anti-Japanese sentiment in China clearly has little influence on Japanese firms’ business transactions in China. Thus far, however, we have examined Chinese attitudes toward Japanese firms only, but it is important to place China’s anti-Japanese attitudes in a comparative context to understand whether it represents an anomaly or a reflection of a broader phenomenon. How do Chinese reactions to other non-Japanese foreign firms compare? Do the Chinese respond any differently to other foreign companies that could also be targets for Chinese nationalism? To help place the influence of anti-Japanese sentiment in context, in the next section I examine China’s business interactions with non-Japanese foreign firms, and especially with one other major political rival: the United States.

### **Comparative Context**

While Chinese xenophobia was directed at all foreigners in the tumultuous days of the 1900 Boxer Rebellion, the focus of Chinese animosity toward non-Japanese foreigners at the turn of the twenty-first century has been directed primarily at Americans. The U.S. bombing of the Chinese embassy in Belgrade (1999) and the EP3 spy plane incident (2001) are recent examples of Chinese friction with the U.S. that have spiked anti-Americanism in China. As such, I focus this exploratory comparative study on the reactions of Chinese consumers to American brands and products in the context of anti-American sentiment, as a proxy for Chinese reactions to other non-Japanese foreign brands. While it

would be useful to understand in more detail Chinese reactions to European and other foreign commercial entities, as well as the reactions of other Asian countries toward Japanese firms, to cover the diversity of historical contexts and present variables involved in such comparisons would be outside the scope of this project and would be better served as the subject of a separate research study. It should be noted that anti-Americanism, too, has different roots and is of a different nature than anti-Japanese sentiment, and thus cannot be directly comparable with the Sino-Japanese context, but an exploratory investigation of Chinese reactions to American products and brands as a proxy for foreign brands is feasible within the scope of this project and may prove useful in understanding the influence of Chinese nationalism on business relations overall.

The following studies focus on Chinese consumer behavior specifically, which I use as a proxy for gauging Chinese business behavior overall in the context of anti-foreign, and especially anti-American, nationalism. Some consideration is also given to surveys on Chinese workers' attitudes toward American employers. This evidence indicates that nationalism in China has had little impact on Chinese behavior vis-à-vis foreign brands and companies.

In particular, studies show that Chinese consumers have not carried anti-foreign political sentiments into their purchasing decisions. In a recent study in southern China by Ogilvy PR, 200 Chinese youths between the ages of 15 and 28 were asked their feelings toward a mix of Chinese and foreign brands (see Table 3, Appendix). After measuring their levels of patriotism on a scale of 1 to 10, it was

found that the level of patriotism had very little correlation with choice of brand. While 69% of the “moderately” patriotic (5 through 8 on the scale) used Nike, 63% of the “extremely” patriotic (9-10 on the scale) also used Nike; while 100% of the “moderately” patriotic used Coca Cola, 94% of the “extremely” patriotic also used Coca Cola. One southern Chinese youth’s statement captured the results of this study: “I love my country but I do not feel obligated to buy national brands. I have my right as a shopper and other factors also count.”<sup>111</sup>

The results of this survey indeed indicated that Chinese consumers separate their nationalism from their purchasing behavior. According to the study, Chinese consumers have a “level of sophistication when it comes to determining how national responsibilities should be interpreted in the lives of individuals,” and they exhibit an “apparent detachment of national loyalty from the loyalty reserved for brands.” The global standard of a brand – its “international-ness” – is ultimately more prevalent in the minds of Chinese consumers than the fact that the brands are foreign.<sup>112</sup>

A similar study on nationalism and consumer behavior in China supports the conclusions above. In June 1999, 100 students from three leading universities in Beijing<sup>113</sup> were surveyed on their choice of brands between Coca Cola, the American brand, and Future-Cola, a Chinese brand owned by the Wahaha Group

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111 Edward Bell, “Pitching a product to the heart of a nation,” Ogilvy PR, forthcoming in *Viewpoints*, June 2005. Cited with permission of author.

112 Ibid.

113 Beijing University, Tsinghua University and Beijing Medical University.

and promoted under the slogan “Chinese consume Chinese cola.” The study found that price and brand recognition were more important than “patriotic feeling” in determining the choice between the two brands. Over two decades, Coca Cola had moreover become such a “part of the Chinese people’s daily life” as to make its foreign origins virtually irrelevant in the consumer’s calculus. This finding, indicating the pragmatism of Chinese consumer behavior in spite of rising nationalism, was particularly salient in light of the “Buy Chinese” debates in the mass media at the time.<sup>114</sup>

In the human resources context, Chinese nationalistic sentiments seem also to have very little influence on the popularity of foreign companies as employers. Despite the anti-US sentiment that has emerged in incidents such as the U.S. bombing of the Chinese embassy in Belgrade in 1999 and the EP3 spy plane incident in 2001, American companies like IBM, Proctor & Gamble, Microsoft and General Electric are still among the top ten most popular companies to work for in China, according to a 2004 poll by ChinaHR.com (see Table 1, Appendix).<sup>115</sup> These companies remain preferred employers in China because of their global status and quality treatment of employees rather than factors related to their national identities.

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114 Ming Ouyang, Hongxia Zhang, and Nan Zhou, “Does Nationalist Appeal Affect Chinese University Students’ Product Evaluation? A Conjoint Analysis,” *Asian Journal of Marketing*, October 2002. Accessed December 28, 2004. Available from <http://mkesrm.cityu.edu.hk/zhounan/AJ.pdf>.

115 Chi Hung Kwan, “Persistent Anti-Japanese Sentiments Heighten the Risks for Investment in China - Striving for a Virtuous Cycle between Economic and Political Sino-Japanese Ties,” *China In Transition*, September 8, 2004, <http://www.rieti.go.jp/en/china/04090801.html>, accessed December 13, 2004.

From this preliminary evidence, the Chinese appear to be pragmatic in separating their anti-foreign nationalism from their economic behavior as consumers and employees. Their behavior with respect to American and other foreign products and commercial entities in China is in line with the evidence for their pragmatism displayed toward Japanese products and businesses. Indeed, evidence from quantitative facts and figures, interviews with practitioners “on the ground,” and now, a comparative view of Chinese consumer reactions to foreign brands collectively indicate that Chinese business behavior on a day-to-day basis is less influenced by political sentiments than it may appear.

### *Chapter 3: Analysis*

Do the “chilly politics” reflected in rampant anti-Japanese sentiment in China negatively affect the “hot economics” of Japan’s business relations in China? The evidence presented thus far reveals discrepancies in the assessment of this question. On one side, public animosity toward Japan has seemed to cause measurable negative impact for Japanese firms in the form of public relations crises, government bans from the market, consumer avoidance, and loss of competitiveness in multibillion dollar bids, among other examples. On the other side, trade and investment figures as well as interviews with practitioners in Sino-Japanese business suggest that historical grievances against Japan have not influenced the practicalities of day-to-day business transactions. How can we make sense of these discrepancies to uncover the real picture behind Sino-Japanese business relations?

In the following analysis, I present two prisms through which the complex dynamics between anti-Japanese sentiment and Sino-Japanese business relations can be understood. First, the distinction between public and private attitudes among the Chinese is key to explaining the apparent discrepancies in anti-Japanese sentiment’s impact on business relations. Indeed, the dual influences of political pride and economic sophistication in China translate into a divergence in public and private manifestations of Chinese attitudes toward things Japanese. Second, factors other than anti-Japanese sentiment that could shape Sino-

Japanese business relations must be considered to provide balance and context in assessing the role of political animosity in Japan's business relations with China. Characteristics of China's business environment or of Japanese firms are important to consider as potential confounding factors in analyzing correlations between political and business relations in China. Together, these two prisms provide tools to decipher the divergent manifestations of Sino-Japanese relations and paint a more nuanced picture of the nature of anti-Japanese sentiment in relation to Japanese business operations in China today.

### **PUBLIC VS. PRIVATE**

The current conundrum of Sino-Japanese relations involves a puzzling dynamic where Chinese actors seem to be both protesting and embracing in turn the various manifestations of Japanese presence in China. In the commercial realm especially, the Chinese are protesting the Beijing-Shanghai railway bid and decrying Japanese companies' racism while drinking Coke, buying Sony CD players, and driving Toyota Corolla's. What are we to make of these seemingly contradictory phenomena? Upon closer examination, we find a critical distinction: the protests against Japanese presence tend to be public displays of nationalism, while the embraces of the Japanese presence tend to be private manifestations of rational choice.

What is meant by public versus private behavior, and how is this distinction made? Here, public behavior refers to actions performed in a social context and motivated by a consciousness of the collective. Nationalism in China, for example, is more often demonstrated in a collective context in China. Private behavior, meanwhile, refers to those actions performed in an individual context and motivated by the desire to maximize personal benefit based on rational choice. In the case of China, consumer purchasing is primarily a private, individually-based activity. Indeed, as one executive at a public relations firm in China expressed, “Brand-buying today is a personal activity. Patriotism is [a] collective activity.”<sup>116</sup> The distinctions between public and private attitudes and behavior help explain the discrepancies in the manifestations of anti-Japanese sentiment in the realm of Chinese business.

### **Public behavior**

Looking back at the evidence, demonstrations of anti-Japanese sentiment more generally and animosity toward Japanese firms in particular have tended to be public and collective in nature, carried out in a group context where one’s actions could be observed by others. The complaints against Japanese companies, protest of the Japanese bid for the Beijing-Shanghai railway, anti-Japanese vandalism during mass demonstrations, and even the study of consumer

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116 Geoffrey A. Fowler, “Media & Marketing -- Advertising: China's Cultural Fabric Is a Challenge to Marketers,” *The Wall Street Journal*, January 21, 2004. Accessed March 21, 2004. Available from ABI/INFORM Research.

behavior in Nanjing or the remarks in the media have all had a public, social component that represent varying degrees of expression of national identity. Similar to other popular demonstrations of anti-Japanese sentiment at soccer games or through various protests, expressing negative sentiments about Japan has become a social norm, part of the set of shared values and expectations that validate Chinese national identity.

Indeed, social expectations to uphold national identity and speak out or act against Japan have motivated these public displays in three ways. First, the context of these anti-Japanese manifestations, whether the offense itself, the magnitude of the project, or the historical experience of Nanjing, triggered higher levels of national identity salience that ultimately moved the Chinese actors involved to express their nationalistic sentiments in action. Second, the social or public nature of the anti-Japanese behavior reflects a desire to validate one's national identity both to oneself and to others by demonstrating the socially expected animosity toward Japan. Third, these expressions of anti-Japanese sentiment represented prime opportunities to make a public statement of disapproval vis-à-vis Japan that might register impact in practical terms. These three elements explain why, in the cases cited, anti-Japanese sentiment was expressed at all, and expressed in a public, collective way.

The public relations cases that Chinese consumers brought against Japanese companies perhaps best illustrate the social impetuses that drive the expression of anti-Japanese sentiment to be public. In the cases cited – Toshiba,

Mitsubishi, Japan Airlines, Matsushita Electric, Toyota, Nippon Paint and Fuji Xerox – the perceived offenses first reminded the Chinese consumers of a need to defend their nation against sinister Japanese intentions, thus triggering a higher salience of national identity. This more salient national identity then compelled the offended Chinese consumers to take action in a public, collective way to show to themselves and all other observers their anti-Japanese stance and thus validate their national identity for themselves and before others. Finally, their protest also reflected activist motivations to demonstrate public disapproval of Japan through action against Japanese firms, in hopes of showing that Japanese firms would be punished for the past transgressions of Japan by bearing greater cost than would other foreign firms.

The study of animosity and consumer behavior in Nanjing, while unique due to its nature as a research study, nevertheless demonstrates that anti-Japanese behavior is publicly motivated. First, the residents of Nanjing, the site of the symbolic Nanjing Massacre, are likely to exhibit higher national identity salience relative to other parts of China with respect to animosity toward Japan, thus prompting action to actively avoid Japanese brands. It must be remembered, however that this higher national identity salience and consequent avoidance of Japanese goods among Nanjing residents may or may not hold true for other parts of China and thus cannot be generalized across all of China. Second, social norms also prompted respondents in Nanjing to validate their national identity through their responses. Indeed, social desirability bias in market research would

indicate a tendency for the Nanjing residents to respond according to what they perceived to be socially desired or expected – in this case, that their animosity toward Japan in this legendary site of Japanese atrocity would cause them to avoid Japanese products. Finally, in a similar vein, the responses could also be explained by taking into account the respondents' opportunity to make a public statement through the results of the research, which would demonstrate that Japan's transgressions in the past have indeed returned to haunt Japanese businesses in the present.

In the case of the Japanese bid for the Beijing-Shanghai railway, the visibility of the project offered an opportunity for anti-Japanese activists to publicly display their protest against Japan. First, the magnitude of the project itself directly triggered a higher salience of national identity. "Why should we give our money to a country that won't atone for its war crimes?"<sup>117</sup> expressed Lu Yunfei, the chief organizer of the online petition against the Japanese bid, showing that this multi-billion dollar transaction triggered an awareness of national identity and a consequent action to oppose Japan's bid. Second, the petition against Japan's bid also represented a means to validate national identity by showing hostility to Japan as a part of demonstrating loyalty to the nation, in line with the social norms and expectations of Chinese society. Finally, this act of defiance against Japan's commercial presence was certainly motivated by a desire to make a public statement in hopes of creating an impact. "We have to show

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that China is self-confident and powerful and can stand up to a country like Japan,” expressed Lu, in explaining the aims of the anti-Japanese activities he organized.<sup>118</sup> “We changed government policy,” said petition signer Zhao Zhongchen proudly<sup>119</sup> -- “That’s impact,” said Lu, referring to the success of the petition in causing the Chinese government hesitation in giving Japan the bid,<sup>120</sup> again confirming that the motivation for this anti-Japanese petition was to make a public statement that would effect practical change.

Finally, the mass anti-Japanese demonstrations in China perhaps most clearly demonstrate that national identity indeed motivates the expression of anti-Japanese sentiment to be public. While boycotts, vandalism and overall stigma against Japanese products and businesses are not typical on a day-to-day basis in China, the mass anti-Japanese movement dramatically heightened the salience of national identity and thus moved the Chinese public to action against the various representations of Japan, as according to their national identity. The attacks against Japanese commercial presence, part of the overall attacks against Japan, also served to validate national identity as a social norm, such that patriotism as demonstrated through hostility toward Japan would also be rewarded with social acceptance among fellow citizens. Finally, anti-Japanese sentiment in the form of mass demonstrations very overtly comprised a diplomatic tool used by both the

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118 Ibid.

119 Hannah Beech, “Patriot Games,” *Time Asia*, November 22, 2004. Accessed November 24, 2004. Available from [http://www.time.com/time/asia/covers/501041129/chinajapan\\_china.html](http://www.time.com/time/asia/covers/501041129/chinajapan_china.html).

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Chinese government and people to effect change to Japan's behavior. In these ways, the recent demonstrations in China serve as a prime example of the mechanisms of national identity at work to bring the ever-latent anti-Japanese sentiment to the fore in a public arena.

Evidence in the media supporting the impact of anti-Japanese sentiment on business relations can also be explained by social factors driving behavior. The media serves a unique role in the social, public realm of Chinese society as both a reflection of and a shaper of social and national identity. When an event generates anti-Japanese sentiment, for example, Chinese media reports react to a higher level of national identity salience in their coverage of anti-Japanese sentiment in China, but they are in turn perpetuating or elevating this salience by generating those very reminders of national identity for the people of the country. The Chinese media also serves as a prime outlet for journalists and others to espouse their disapproval of Japan as a way to show their loyalty to the nation and thus validate their national identity. Since evidence for the tangible impact of anti-Japanese sentiment on business relations is mixed, the predominance of Chinese media articles arguing for the existence of an impact belies a Chinese preference to demonstrate that Japan's past wrongdoings have a practical if indirect impact on Japanese business in China. These articles take advantage of the public forum of the media to make a public statement that would show the Japanese that their historical acts have practical consequences for their present and future in China. Finally, the media is generally known to have a "bad news

bias”<sup>121</sup> and to report on more sensational events,<sup>122</sup> thus making manifestations of anti-Japanese sentiment or speculations about its impact more newsworthy than the placid harmony that might characterize day-to-day Sino-Japanese business relations.

Of course, social factors in Chinese society may explain Chinese depictions of anti-Japanese sentiment in the media, but not those of liberal Japanese newspapers and leading Japanese businessmen’s comments also citing an impact of anti-Japanese sentiment on business relations. Nevertheless, one can surmise the factors behind such references on Japan’s part. First, Japanese newspapers such as the *Asahi Shimbun* are known for their liberal stance, so evidence citing the practical impact of anti-Japanese sentiment on Japanese business relations in China would be critical of Japan and therefore in line with the newspaper’s political leanings – a validation of liberal social identity in Japan. Second, business politics often call for Japanese executives to demonstrate to Chinese business partners their care and attention to China’s concerns as a means to curry favor in business deals – a validation of Chinese national identity by their Japanese business partners. Finally, those Japanese senior executives who expressed concern for the impact of anti-Japanese sentiment on Japanese business prospects in China may see long-term effects that mid-to-lower level

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121 “Media/Political Bias,” *The Rhetorica Network* (accessed April 11, 2005); available from <http://rhetorica.net/bias.htm>.

122 Frank Ching, “Learning Self-Control,” *Far Eastern Economic Review*, December 17, 1998. Accessed April 11, 2005. Available from ABI/INFORM Research.

executives may not encounter on a day-to-day basis. Nevertheless, these factors cited above are hypotheses that require further research to validate, but they may serve as exploratory explanations for the Japanese media and businessmen's comments citing the business impact of anti-Japanese sentiment.

Indeed, the evidence demonstrating practical impact of anti-Japanese sentiment on business relations have tended to be public and collective in nature, motivated by Chinese national identity. Next, we interpret the evidence showing little or no impact of anti-Japanese sentiment on business interactions. These actions tend to be private in nature, further demonstrating the distinction between the public and private spheres of Chinese behavior with regard to anti-Japanese sentiment in the business realm.

### **Private behavior**

Chinese actions in the private sphere of commercial decision-making, such as in consumer behavior, choosing place of employment, or business deals, tend to exhibit little influence of anti-Japanese sentiment on behavior. Whereas the Chinese may seek to validate national identity through active demonstration of anti-Japanese sentiment in the public sphere, they seem less compelled by national identity and much more motivated by rational calculation of personal benefits and costs in the private realm. It makes sense: private decisions of real consequence, whether purchasing a good, choosing a job, or forming a business partnership, impacts significantly the immediate actors involved while having very

little relevance to outside actors or the public at large. Therefore, the Chinese tend to make decisions in the private realm based on personal maximization of benefit rather than considerations of national identity.

A closer examination reveals that these private, day-to-day decisions are not influenced by anti-Japanese sentiment because they score very low on relevance to national identity. First, in the process of buying products, choosing employment or conducting business deals, salience of national identity is at a low level because of the absence of any offense or specific reminders of national identity in these instances. With a low level of national identity salience, there is then little inclination to take action to defend national identity in the first place. Second, the scope of impact of these private decisions is so narrowly focused on the immediate actors involved that it has little relevance to validation of national identity – neither the actors involved nor others outside see these decisions as a test of loyalty to the nation, but rather it is understood that the benefits accrued from these decisions are more important to consider because they impact the immediate actors most. Finally, these private decisions by nature preclude any opportunity to make a public statement of impact against Japan, leaving rational calculation of costs and benefits to the immediate actors involved to be paramount in private decision-making.

While national identity is far away from private behavioral considerations most of the time, there could be instances where national identity is evoked in the decision-making process – such as when asked about purchasing decisions by

market researchers or interviewers. According to Edward Bell from Ogilvy PR, Chinese consumers in such cases may rationalize their choice of Japanese brands by showing that their decision does not violate national identity or social norms. As mentioned earlier, Chinese buyers of Sony products might say that they chose Sony because it is actually a global brand, not a Japanese brand; and the mostly female buyers of Shiseido make-up products might say that the world of make-up seems so far removed from politics that tensions with Japan seem irrelevant to their brand choice in cosmetics products. Whatever the attempts to rationalize private consumer behavior, however, it still remains that the actual behavior in the private realm will follow rational considerations of cost and benefit to immediate actors rather than social considerations associated with upholding national identity.

The distinction between public and private behavior is indeed one prism through which to interpret the discrepancy in assessments of anti-Japanese sentiment's impact on business interactions. Besides examining anti-Japanese sentiment alone as a factor, however, a proper analysis must consider other factors that could influence the prospects of Japanese firms in China. In the next section, I examine China's challenging and increasingly competitive business environment for foreign firms and Japanese companies' inherent business strategies relative to foreign markets. In this way, I place the role of anti-Japanese sentiment in context as only one of the factors influencing Japanese business relations with China.

## CONFOUNDING FACTORS

Anti-Japanese sentiment is far from being the only factor influencing Sino-Japanese business relations these days. China presents a thorny and intensely competitive market for foreign firms, and Japanese firms come with their own set of strategic idiosyncrasies that influence their operations within the China scene. These dynamics between both China's business environment and Japanese firms' characteristics form the foundations of Sino-Japanese business relations and serve as the confounding factors in any analysis that attempts to isolate the impact on business relations of anti-Japanese sentiment alone. The presence of these additional factors is key to understanding why the evidence is mixed regarding the influence of anti-Japanese sentiment alone on Japanese business operations in China.

### **China's business environment**

The challenges of doing business in China present formidable barriers for Japanese firms as well as other foreign firms seeking entry into this rich but risk-fraught business landscape. In *Harvard Business Review*, Kenneth and Geoffrey Lieberthal warn that China is still "an exceptionally challenging environment" with "inadequate legal protections, rampant intellectual property rights violations, massive government interference, severe price competition from state-subsidized

firms, and other factors intimidating to the fainthearted.”<sup>123</sup> Indeed, the risks involved in conducting business in China are so significant that the U.S. Commercial Service created a 12-point list of factors to watch, such as counterfeiting and copyright infringement, protectionist hurdles like tariffs and quotas, and contract disputes mired in an underdeveloped legal system.<sup>124</sup> According to various surveys, Japanese-owned firms specifically face management issues such as “(1) dealing with fake products; (2) product liability issues; and (3) collecting credit sales,” among which damages sustained from “fake products” seem most worrisome.<sup>125</sup> With such challenges involved in investing in China, problems that Japanese firms encounter cannot be solely blamed on the presence of anti-Japanese sentiment.

Beyond the challenges of China’s business environment, Japanese firms must also contend with increasingly heated competition on the Chinese stage. During Japan’s period of stagnation in the late 1990s, European and American firms so rapidly developed a presence in China that they collectively pushed Japanese firms’ share of total investment in China down from 8.3% in 1995 to 7.2% in 2000, while boosting their own shares from 5.7% to 11% and from 8.2%

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123 Kenneth Lieberthal and Geoffrey Lieberthal, “The Great Transition,” *Harvard Business Review*, October 2003, p. 4 (hard copy available upon request).

124 Kenneth McCallum, “China Is No Paradise For Foreigners Setting Up Business,” *Dow Jones International News*, July 10, 2002. Accessed March 27, 2002. Available from Factiva.

125 Amano Shin-ya and Yabuuchi Masaki, “Lights and Shadows in the Chinese Economy,” *Journal of Japanese Trade & Industry*, September 1, 2002. Accessed March 27, 2005. Available from Factiva.

to 10.8%, respectively.<sup>126</sup> Local Chinese firms have also been taking significant share from Japanese firms, such as the expanding share of Chinese players Haier and Legend in the electrical appliances sector. Indeed, Coca-Cola China's president Paul Etchells called China "the most competitive market in the world"<sup>127</sup> – and Japanese firms must now reckon with this competition. If Japanese firms lose share in China, would it be due to the intensified competition or to anti-Japanese sentiment? It is hard to know, again indicating the importance of recognizing the host of other challenges that Japanese firms face in China when evaluating the influence of anti-Japanese sentiment on business relations.

### **Japanese firms' characteristics**

Besides challenges posed by China's environment, Japanese firms themselves exhibit characteristics that may potentially disadvantage them in China, even without any influence from anti-Japanese sentiment. As noted earlier, Japanese firms may be less desirable as places of employment because of the impenetrability of foreigners into top management. Moreover, the Japanese system of lifetime employment, seniority-based wages and egalitarian pay seem no longer to appeal to today's more capitalistic Chinese labor market, which prefers the individualized, merit-based evaluation with monetary reward that tend to be

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126 Ibid.

127 Paul Etchells, Keynote Speaker, Harvard Asia Business Conference, February 19, 2005.

more prevalent in western firms.<sup>128</sup> In terms of product marketing and distribution, as noted earlier, Japanese firms tend to expend less effort on market research and developing marketing relationships with distributors, relying mainly on the quality of the products to sell themselves. In risk mitigation, Japanese firms also tend to be less prepared than American or European counterparts in understanding the full array of risks involved in the Chinese business environment. With the challenging and increasingly competitive landscape in China, however, Japanese firms' strategic differences may become a burden in a far more fundamental way than any factors involving Sino-Japanese political tensions.

Indeed, factors besides anti-Japanese sentiment are important qualifiers in evaluating any correlation between strong anti-Japanese sentiment and potential difficulties that Japanese firms may face in the China market. China's hotly competitive market coupled with the weaknesses of Japanese firms' international strategies are important factors that may very well trump anti-Japanese sentiment as important factors influencing Japanese firms' prospects in China. Thus, anti-Japanese sentiment is only one of the factors that could have impact on Sino-Japanese business relations.

On the surface, Chinese animosity toward Japan seems to have strong influence at times and no bearing at all at other times on practical, business

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<sup>128</sup> Hideki Yoshihara, "The Decline of Japan's Predominance in Asia." Accessed December 11, 2004. Available from <http://www.rieb.kobe-u.ac.jp/academic/ra/dp/English/dp124.pdf>.

interactions. This apparent discrepancy, however, is not as inexplicable upon closer examination. Viewed through the prism of public versus private behavior, it can be seen that anti-Japanese sentiment tends to manifest in behavior mainly when motivated by social factors in public forums, but has less influence on decisions and actions in more private settings. Analyzing the role of anti-Japanese sentiment through the prism of confounding factors also provides a critical explanation for the variant evidence, showing that problems in Sino-Japanese business relations that may be attributed to anti-Japanese sentiment could in fact be the result of a slate of other factors. Of course, this analysis does not suggest that anti-Japanese sentiment is not genuinely felt or does not have actual impact in business; however, it qualifies anti-Japanese sentiment in present-day China as stronger in a social, collective context and weaker on a purely individual basis – and to be placed in context as only one of the forces influencing Sino-Japanese business relations. It can thus be tentatively concluded that while anti-Japanese sentiment in politics is undeniably potent, it tends to penetrate the business sphere primarily in situations where social forces compel behavior more than does individual calculation of cost and benefit – and even then, only in relation to other forces at play in Sino-Japanese business relations.

## CONCLUSION

Nearly seventy years after the worst of Japan's wartime atrocities, popular anti-Japanese sentiment reigns strong in China. Political relations between the two great powers of Asia have deteriorated to their lowest point since normalization, as unresolved historical tensions fuel diplomatic disputes in vicious cycles. For the most part, Sino-Japanese frictions have played themselves out as mainly political dramas against the backdrop of thriving economic relations between the two countries. Nevertheless, the recent mass demonstrations and general proliferation of anti-Japanese sentiment have begun to generate concern over whether historically rooted grievances could spill over to tangibly impact the heretofore brilliant economic relationship between China and Japan. Japanese businesses in China, seemingly immune to the volatility of Sino-Japanese politics for so long, have found themselves operating in an environment increasingly hostile toward Japan. The question remains, however, whether this popular hostility translates into impact on business relations. Are Japanese firms and the pragmatic world of business hurt by the shadows of the past? Or, do they emerge unscathed from the vitriol of the Chinese people?

Evidence of the impact of anti-Japanese sentiment on Japanese business relations in China has indeed been mixed, but some coherence can be drawn from the mix. Anti-Japanese sentiment does have impact on Japanese business operations in China, as evidenced from the public relations crises, successful

lobbying efforts and recent mass demonstrations against Japan; however, the impact has been confined mainly to the exceptions.<sup>129</sup> When the salience of Chinese national identity is elevated due to public relations offenses, diplomatic tensions, the visibility of a project, the location under study (i.e. Nanjing), or mass protests, the Chinese are more likely to act on their national identity according to anti-Japanese social norms and in hopes of advancing a cause against Japan. In these cases, Japanese businesses are more likely to be burned from the flames of anti-Japanese sentiment – burns that then tend to be magnified by enthusiastic Chinese media who are drawn to sensational news, especially those that portray Japan in a negative light. Beyond these prominent exceptions, however, everyday business transactions and decisions are driven more by rational choice than anti-Japanese national identity, due to the relatively low daily levels of national identity salience and the greater stakes that individual decision makers relative to the public have in certain business transactions. Thus, anti-Japanese sentiment may have less significant impact on Sino-Japanese business relations overall than might be expected from the sensational episodes of popular animosity toward Japan.

Nevertheless, anti-Japanese sentiment does carry real risks for Japanese firms in China. First, potent Chinese animosity toward Japan as a nation – stronger than Chinese feelings toward other foreign nations, even the U.S. –

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<sup>129</sup> Indeed, even the recent anti-Japanese mass demonstrations and the consequent incidents of damage to Japanese businesses are exceptions because they represent the lowest point in Sino-Japanese relations, and correspondingly the highest levels of national identity salience with respect to Japan, since normalization of relations in 1972.

causes negative images of Japan to have greater spillover effects on all the various representations of Japan. For example, if IBM made a mistake, the effects would be felt mainly by IBM and not by other American companies; but if a Japanese firm made a misstep, the negative publicity and other repercussions would affect not only the Japanese firm involved but all other Japanese firms in China as well.<sup>130</sup> Second, vicious anti-Japanese sentiment creates a social imperative that disinclines even potential supporters of Japanese business in the Chinese government, media and other institutions from showing favor to Japanese firms. Thus, Japanese firms lack reliable institutional allies in China, which could make the competitive and challenging business environment there that much more difficult to navigate. Finally, strong anti-Japanese sentiment may not have seriously damaged Japanese business operations in China to date, but could carry longer-term consequences for Japanese firms' competitiveness in China. Countless opportunities for greater business cooperation may be lost due to China's strong disfavor of Japan, even as China advances its cooperation with strategic allies like the EU. Perhaps the Japanese business leaders who have expressed concern over the business implications of anti-Japanese nationalism see a bigger picture of lost opportunity and greater risk wrought by anti-Japanese sentiment on the future of Japanese business in the increasingly competitive business environment of China.

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<sup>130</sup> Interview with senior journalist at Asahi Shimbun, conducted March 18, 2005.

This study of anti-Japanese sentiment and its manifestations in the business sphere is meant to be exploratory, and the conclusions drawn are tentative. Further research that includes on-site empirical analysis and an exhaustive repertoire of interviews with practitioners would be recommended to present a more comprehensive picture of the dynamics between anti-Japanese sentiment and business relations. In this paper, I have focused on the impact of anti-Japanese sentiment on Japanese firms' business operations in China, but examination of the impact of other manifestations of Sino-Japanese friction (such as anti-Chinese sentiment in Japan) on other relevant dimensions of Sino-Japanese business relations (such as Chinese firms' business operations in Japan) could also be worthy of future research. Remaining research inquiries could properly isolate anti-Japanese sentiment as a factor in Sino-Japanese business relations, or explore the discrepancies between Japanese business leaders, mid-level executives, and other Japanese actors on interpretations of the impact of China's anti-Japanese sentiment. The role of the media in shaping images of impact would also be worthy of further research.

This paper closes on the eve of potentially groundbreaking shifts in Sino-Japanese relations. Anti-Japanese sentiment in China, powerful but latent in the decades since the war, has erupted into new heights of intensity that have seized unprecedented international attention due to its size and scale. In years prior, anti-Japanese national identity could be said to have been maintained at a low to moderate level of salience, only coming to the surface sporadically and causing

only mild, short-lived, and therefore inconsequential impact on Japanese firms' prosperous business in China. In the build-up culminating in the recent mass demonstrations, however, salience of anti-Japanese national identity has become elevated to a high level and has thus increasingly triggered action against Japanese products and firms. Will a high level of anti-Japanese national identity salience be sustained past the momentary excitement of the mass protests? If so, it remains to be seen whether a quantifiable impact on Japanese business in China will prompt a final reckoning of the past between the two rivals – a past that has heretofore been powerless to affect policy because it has been stowed away neatly within the confines of politics, adequate only as ammunition in wars of words. At a crossroads in Sino-Japanese relations, we shall see: If the past stirs trouble only within diplomatic realms and bears no quantifiable cost on current relations, then the past will remain merely the past; but if the past treads across diplomatic lines to cause significant, quantifiable impact to business relations, then a sea change in Sino-Japanese relations awaits. The future of the two great powers of Asia is at a crossroads, and it is at the crossroads of history and business relations that lies their fate, and the fate of Asia, in the years to come.

## APPENDIX

**Table 1: Popular Companies to Work For in China (2004)**

Overall	Ranking		Company
	Among foreign firms		
	2004年	2003年	
1	–	–	Haier Group
2	1	1	IBM
3	2	3	Procter & Gamble
4	–	–	China Mobile Communications Corp.
5	3	2	Microsoft
6	–	–	Lenovo Group
7	–	–	Huawei Technologies Co.
8	4	4	General Electric Co.
9	5	6	Siemens
10	–	–	China Telecom Corp.
26	17	11	Sony Corp.
46	32	23	Matsushita Electric Industrial Co.

Note: Toyota Motor Corp. ranked 31st among foreign firms in the 2003 survey but failed to make the list in 2004.

Source: Questionnaire survey by ChinaHR.com, through “China In Transition”:

<http://www.rieti.go.jp/en/china/04090801.html>

**Table 2: Interview Schedule**

<b>Date</b>	<b>Name</b>	<b>Relevant Title</b>	<b>Location</b>	<b>Mode</b>
2-Feb-05	[Confidential]	Executives, leading Japanese firm	Boston	Group, in-person
3-Feb-05	[Confidential]	Former negotiator from Japan, Beijing-Shanghai Railway	Boston	In-person
11-Feb-05	[Confidential]	Fletcher Japanese students	Boston	Group, in-person
11-Feb-05	Mitsuo Yamaguchi	Strategy officer, Development of IT Telecom and communications, Hitachi	Japan	Phone
19-Feb-05	[Confidential]	Marketing manager, leading Japanese firm	Beijing	Phone
24-Feb-05	[Confidential]	Negotiator, Beijing-Shanghai Railway	Tokyo	Phone
28-Feb-05	Crocker Snow	Professor of Public Diplomacy, Fletcher School; former career journalist with Asia experience	Boston	In-person
6-Mar-05	Edward Bell	Chief of Strategy Planning, Ogilvy Public Relations	Beijing	Phone
8-Mar-05	[Confidential]	Editor, <i>Oriental Economist</i>	New York	Phone
8-Mar-05	Takaaki Taoka	Vice-Consul, Economic Division, Consulate-General of Japan	Shenyang, China	Written Survey
15-Mar-05	[Confidential]	中京律師所所長 [Partner, Zhong-Jing Law Firm]	Beijing	Phone
17-Mar-05	[Confidential]	Executive, Hitachi	China	Written Survey
17-Mar-05	Mr. Rong	Branch manager, Japanese textile company	near Shanghai	Phone
18-Mar-05	[Confidential]	Senior journalist, <i>Asahi Shimbun</i>	Washington, D.C.	Phone
24-Apr-05	[Confidential]	Transactional lawyer, a law firm specializing in risk mitigation for Japanese foreign-invested enterprises (FIEs) in China	Beijing	Phone

Source: Compiled by author

**Table 3: Usage of Brands by PRC Youths**

International Brands	% Used by the 'Moderately' Patriotic (51%)	% Used by the 'Extremely' Patriotic (49%)
Coca Cola	100	94
Nike	69	63
Budweiser	66	66
Bossini	70	59
Sony Ericsson	22	20
Dell	13	14
Volkswagen	9	9
Cathay Pacific	5	2
HSBC	1	4
Disney	3	-

\* 0.05% Confidence level

Source: Edward Bell, "Pitching a product to the heart of a nation," Ogilvy PR, forthcoming in *Viewpoints*, June 2005.

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