

Domestic Effects from International Risk Management Strategies: Foreign Direct Investment and Political Risk

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Abstract

What do firms do in the face of political risk arising from nationalist tensions and interstate conflict? This paper brings private firms as political actors to the forefront of the academic debate over the relationship between political risk and foreign direct investment. I examine how international firms hedge against political conflict risk using data on Japanese firms in tenuous conditions due to tense Sino-Japanese relations. I find that Japanese firms have a surprisingly limited lobbying presence in Japan on political issues related to China, but rather invest resources within China in efforts to transform Chinese societal attitudes towards Japan. Existing debates focus on how political risk can damage investment flows, and theory posits that business actors will lobby against policies that can lead to interstate conflict in order to minimize disruptions to profits. I examine the strategies that individual firms actually adopt to reduce or hedge against political risk. Based on previously unexplored firm-level data from surveys of over 300 firms conducted in 2005, 2007, and 2009 and over 100 elite interviews conducted in 2009-2011 in Japan and China, I examine private firms strategies, focusing on their utilization of corporate social responsibility activities. Statistical analysis of the firm-level data show that, in response to increased risks from bilateral political tensions in the 2000s, Japanese firms increased activities designed to improve Sino-Japanese relations by fostering positive perceptions of Japan in Chinese society. Elite interviews reveal that firms intentionally seek to transform Chinese attitudes in order to mitigate political risk and protect firm interests.

1 Introduction

International political-conflict risk can present intractable problems for multinational firms. Firms are held responsible by host governments and societies for not only economic or business matters directly related to the firms' operations but also to the actions of their home country. French wine was boycotted in the 1990s by Australians in the opposing France's nuclear tests in the Pacific (Verlegh and Steenkamp 1999) and by Americans opposed to France's stance on Iraq in 2003 (Davis and Meunier 2011). In 2013, LGBT supporters ceased buying Russian vodkas to oppose Russia's policies on gay and lesbian rights (Schrad 2013). Alongside violent protests and death threats against the artist, some Muslims in Arab countries boycotted and destroyed Danish products to protest Prophet Muhammed cartoons published in the newspaper *Jyllands-Posten* in 2005 (Kimmelman 2008). Sometimes, the ability to do business can be so toxic or dangerous that most multinationals will withdraw from a host country, and trade and investment will precipitously decline. In other circumstances, firms will manage to maintain business connections despite the adverse atmosphere. This chapter examines how businesses manage political conflict risk when withdrawal from a country is not the preferred option, using data from Japanese multinationals operating in mainland China.

What do firms do in the face of political risk arising from nationalist tensions and interstate conflict? This chapter analyzes one strategy - the transformation of risk through social engagement activities - that some firms adopt when confronted with political conflict risk. Social engagement activities include educational and cultural exchange programs much like "heart-to-heart" diplomacy conducted by states. I argue that the adoption of this strategy is contingent on firms' risk perception: firms with higher degrees of risk perception invest more resources in social strategies. Moreover, as firms are more exposed to risk over time, they shift their risk management strategies to ones that attempt to transform the nature of risk. Firms attempt to effect attitudinal changes in the foreign

society to create a business environment more hospitable to their interests. I test this argument with an ordered logit model using unique data on the contributions of Japanese firms to social engagement activities in China, and qualitatively with descriptive statistics from surveys of corporate social responsibility activities and elite interviews with state and business actors in China and Japan.

Animosity towards Japan, rooted in Imperial Japan's brutal conquest of China but stoked and kept aflame by the patriotic education campaigns of the Chinese Communist Party, at times creates a difficult business environment for Japanese multinationals in China. Japanese products are boycotted by patriotic Chinese activists, high-profile Japanese products and stores are subjected to property damage, and the ability to conduct business as usual is eroded as meetings and contracts are cancelled, and companies worry about the safety of their dispatched employees. Threats to business as usual arising from political conflict and nationalist tensions are episodic, variable in scale and intensity, and difficult to predict. This chapter explains firm strategies in this high risk, high uncertainty environment.

The Japanese business community - private and quasi-governmental business organizations, trade groups, industrial associations, and above all individual firms - maintains economic exchange in China through political risk management, or actions taken before or after political conflict that transform or hedge against the disruptions caused by political issues largely outside of their control. "We can't avoid China risk¹," a China strategist in the Beijing office of a large Japanese multinational told me. "But the firm needs to integrate into Chinese society in a positive way through social contributions to avoid worst-case scenarios" (Interview 73). This chapter focuses on social activities undertaken by firms that seek to decrease the uncertainty of doing business in China by effecting change within Chinese society itself, or "transforming" the nature of political conflict

¹ "China risk" is a synonym for China country risk, and in Japan particularly means the political risks specific to Japanese companies arising from interstate conflict.

risk. Social strategies taken by firms - largely classified under the umbrella of corporate social responsibility activities - are a set of *non-economic* measures taken by firms in order to protect their economic interests. CSR activities, while social, environmental, or philanthropic in nature, are political in their consequences: firms use CSR to transform the risk environment in which they are embedded. Firms engage in CSR activities strategically in order to minimize risks to profits or contracts, but they also have important political consequences: CSR makes overseas business actors not only into providers of a commercial product or employment opportunity, but also merchants of their home culture.

All firms do not engage in CSR activities equally - CSR is costly, and not all firms will invest their limited resources in these activities that are not directly connected to their bottom line. I argue that the way firms perceive and experience political conflict risk motivates them to pursue CSR activities to not only protect the interests of the individual firm but also to attempt to alter the very business environment in which the firm operates. Firms that have a greater threat perception from political conflict risk engage in these more *socially transformative* activities than those that do not. This argument is tested with a multi-methods approach, utilizing qualitative narrative interviews and a unique quantitative dataset created by the author. This chapter utilizes Japanese risk management publications from the 1990s and 2000s², firm-level data of Japanese companies' business and corporate social responsibility activities in China, and interviews with Japanese and Chinese officials and members of the business community conducted in Tokyo, Japan, and Beijing, Shanghai, Guangzhou, Shenyang, and Dalian, China in 2009 - 2011. The interviews provide a firm-level view of motivations for CSR activities and approaches to implementation.

²The risk management publications range from popular business books like *Why do Japanese firms fail? Taking another look at China Risk* (2004) to books from think tanks like *The China Risk Management Handbook for Recently Dispatched Employees* (2009) to pamphlets or books from the government-affiliated Japan External Trade Organization like *Inspecting China Risk: Causes behind the limitations in China's economic growth* (2002). The books are case-study style advice books for Japanese firms operating in China.

Some of the Japanese CSR activities in China are an effort to change the social/political landscape in which they do business. Building off business and marketing literature that describes the “insurance-like” properties of CSR, I analyze not only philanthropic or environmental activities typically associated with CSR, but also firms’ promotion of Japanese culture in Chinese society more broadly. When conducted by the diplomatic corps, these activities are often labeled public diplomacy or soft power, but significantly, these activities are promoted by the private sector. Firms promote Japanese culture, “cool Japan”, and Japanese language education, similar to soft power efforts made by the Japanese Ministry of Foreign Affairs but divorced from the politics of association with the Japanese government.³ This perspective is embraced by the business community and Japanese diplomats themselves. An official at a Japanese peak business organization emphasized that firms can succeed where the state fails because of their emphasis on Japan’s contemporary cultural and technological achievements opposed to traditional culture (Interview 27). A Japanese cultural attache in Beijing said that firms’ efforts were more effective than the government’s because they were received in China as more sincere, and less instrumental (Interview 4).

The chapter proceeds as follows: the following section describes existing literature and theory on CSR, multinational corporations, and risk management and builds three hypotheses. Section three uses interview and survey data to look at the changing nature of Japanese CSR activities across time. This section demonstrates how the target of Japanese CSR has shifted from efforts aimed at promoting the firm’s individual reputation to efforts aimed at transforming how Chinese view Japan as a country. Section four analyzes a large-scale educational exchange program organized by the Japanese Chamber of Commerce in Beijing and funded by over 100 Japanese companies in the wake of the 2005 wave

³Chinese sometimes do carefully distinguish between the actions of private Japanese actors (such as firms) and the policies of the Japanese state. If the private sector is seen as actively cooperating with the state on any measure - including soft power programs - firms will lose that limited protection through the association.

of particularly intense anti-Japanese vitriol in China. I analyze the characteristics of contributing firms with an ordered logit model to demonstrate that a firm's exposure to political conflict risk is pivotal in their CSR strategy. Section five concludes.

2 Multinational Firms, Risk, and CSR

Milton Friedman famously argued in the 1960s that companies should by no means engage in CSR because “the social responsibility of business is to increase its profits”, not to engage in unprofitable activities that bring no directly measurable benefit to its stakeholders (Friedman 1970). Since then, a rich literature in the field of international business, as well as nascent global norms promoted by international organizations such as the United Nations, have ignited a debate over the benefits of CSR. Scholars of international business argue that CSR can be beneficial for firms as a form of insurance; CSR's reputational externalities can protect the firm in the event of crisis. Normative purveyors of CSR argue that firms ought to engage in CSR to be responsible international corporate citizens. The activities of Japanese firms in China demonstrate how firms instrumentally use CSR to try and mitigate risks arising from international political conflict. This approach to CSR is not conceptually novel from the perspective of business literature: the notion that firms will proactively seek opportunities to improve their social reputation is well-acknowledged (see Carroll and Shabana 2010; Barnett and Salomon 2012). In this chapter I bridge the international political economy and international business literatures on political risk and risk management, and examine political consequences of firm-as-social-actors.

Firms use CSR strategically to enhance their individual legitimacy or reputation (Mitchell 1986), or to mitigate negative perceptions from accusations of environmental damage (Lenox and Eesley 2009), worker rights issues (Anner 2012), corruption (Frye 2006), among other things. I demonstrate here that Japanese firms use CSR not only for these functions, but also as a political tool to try to shift popular opinion in China towards

one more amenable to Japan. Anti-Japanese sentiment, especially after periods of bilateral political conflict, creates a high uncertainty environment and exposes Japanese firms to political risk. Firms invest resources into social and cultural activities with the goal of promoting favorable impressions of their home country in an effort to ameliorate the consequences of operating in a hostile business environment. As China has grown more politically powerful, and Japan has become more economically dependent on it, Japanese firms have shifted their China CSR strategies to ones that work to “transform risk” or to take away the uncertainty from China’s nationalistic and anti-Japanese positions.

This conception of CSR differs from those that are rooted in the study of international governmental and non-governmental organizations and emerging non-economic responsibilities of multinational corporations. A norm of corporate social responsibility in international business began to form in the early 1990s in the United States and Western European countries as governments, social activists, and media outlets began to hold companies responsible for their actions in home countries and around the world (Segerlund 2010). Textile companies were held accountable by consumers for labor conditions in their overseas production facilities, pharmaceutical companies operating in Africa were pressured to become involved in HIV/AIDS issues, and organizations began publishing and widely publicizing annual measures of corporate citizenship (Porter and Kramer 2006). At the same time, CSR began to make it onto the agendas of international organizations such as the World Bank, IMF, and United Nations (Baughn, McIntosh et al. 2007). The World Bank encourages developing countries to work with corporations to execute a policy of CSR activities as development work. The United Nations urges businesses to promote human-rights sensitive business practices, and to report their record to groups such as the Global Reporting Initiative, which collects reports on corporate sustainability.

CSR is promoted by the United Nations via the Global Compact, an initiative launched in July 2000, which asks multinational businesses to be good corporate citizens through “universally accepted principles in the areas of human rights, labour, environment and

anti-corruption” (*Corporate Responsibility & The Global Compact* 2013). Political science and sociology research on CSR focuses on how NGOs have mobilized to pressure multinational firms to change their global business practices, or how the Global Compact or Global Reporting Initiative (the two most prominent examples of organizations promoting this norm of responsible global corporate behavior) have influenced firm behavior (e.g. Marcuello Servos and Marcuello 2007; Micheletti and Stolle 2007; Anner 2012; King and McDonnell 2012; Lim and Tsutsui 2012). Some NGOs partner with multinational corporations to plan and implement CSR measures, leading scholars to note a potential global ideational shift in the what the role of the firm should be - an entity with enlightened self-interest that contributes responsibly to the community rather than simply a profit maximizer - and the subsequent increase in CSR visibility as a consequence of that transformation (Davis, Whitman and Zald 2008; Segerlund 2010).

This international change in the expectations for multinational firms has led to a boom in, if not CSR activities themselves, at least CSR reporting and glossy annual corporate sustainability or corporate citizenship reports. Beyond the bad public relations of not producing such a report, Porter and Kramer (2006) cites four corporate justifications for CSR: moral obligations to society, sustainability, license to operate, and reputational concerns. The first two speak to firms conforming to new social or environmental norms of what the firm’s role should be, whereas the second two are more instrumental. ‘License to operate’ CSR seeks to deflect or defuse external pressure or conflict in the communities in which they operate, and firms similarly use reputational CSR to promote a positive image in the hope to guard their financial interests in the event of a crisis. This motivational split uncovers the critique that much CSR is simply a cosmetic effort taken by businesses to appease stakeholders without addressing more serious, structural problems in environmental, development, or labor problems (e.g. Frynas 2005; Banerjee 2008). These dueling commentaries illustrate the potentiality and also pitfalls of using CSR as a risk management tool.

Nevertheless, scholars have found a positive correlation between CSR and successful crisis management. Godfrey (2005) builds a theory of the insurance-like qualities of CSR, wherein philanthropic activities can earn “moral capital, which provides the firm with insurance-like protection for its relationship-based intangible assets” (Godfrey 2005, 783). CSR activities can generate goodwill towards a firm within society that shelter it from future risks, much as car insurance provides protection against a potential future accident. A later study from Godfrey, Merrill and Hansen (2009) found that the causal relationship between CSR and corporate performance varies based on the type of CSR. In a study of 160 American firms, the authors found that CSR that is philanthropic in nature, or aimed at “society at large”, was indeed found to have insurance-like properties. Firms which engaged in these activities had more favorable results after negative events such as law suits than firms which did not. There was no effect, however, for firms which engaged in CSR activities targeted not at society but at shareholders, such as product relations or governance issues. Frye’s study of post-privatization business legitimacy in Russia found that a firm’s use of CSR could improve their image. He found that public goods provision could overcome the taint of illegitimacy firms had gained from legal violations during the notoriously corrupt privatization process Frye (2006).

For multinational firms, the deep and rapid economic integration of the current era of globalization has complicated what society, or what audience, they are trying to inoculate themselves against with CSR. Godfrey and co-authors analyze the efforts of American firms to improve their reputations vis-à-vis local stakeholders (consumers, communities, or shareholders) and Frye similarly speaks to the possibility of Russian firms erasing the ‘sin’ of illegitimate property rights and avoiding legal suit. Concurrent with global economic integration, the idea of where and to whom corporations are responsible has shifted. Davis, Whitman, and Zald argue that traditionally, companies were “ beholden to the communities in which they are located”, but as firms have globalized so has the scope of responsibility. Today, “people hold firms responsible for actions far beyond their

[traditional] boundaries, including the actions of suppliers, distributors, alliance partners, and even sovereign nations” (Davis, Whitman and Zald 2008, 32). Audiences can range from social or labor activists, non-governmental organizations, shareholders, consumers, or even governments. This onus of globalized responsibility is not only to home audiences and stakeholders, but also to foreign ones. Firms can be burdened not only with their own faults and shortcomings such as product quality or poor environmental practices, and also with the actions or policies of their country of origin. In turn, the role of reputation-enhancing activities such as public goods provision or philanthropy has expanded.

Which firms will choose to pursue CSR projects with the intent of attitudinal shifts in a host society - socially transformative CSR - and the timing of those projects depends on what risks the firm is trying to mitigate, the intended audience, the position of the firm within the host country, and the on-the-ground conditions in which a firm operates. I argue here that CSR strategies vary on three axes, two related to characteristics of individual firms and one on the environment in which all firms operate.

In the CSR-as-insurance conceptual approach, firms selectively use different forms of CSR to inoculate themselves against points of vulnerability. If a social or environmental activist targets a firm, or a firm is liable to be targeted by these kinds of activists because of their particular sector or business practices, it follows that their CSR will be designed to inoculate the firms against those protests through, for example, environmental or labor initiatives. In the case of protest or targeting due to a firm’s country of origin, firms need to inoculate themselves accordingly. Social or environmental activists target firm behavior whereas patriotic activists target firms because of their identification with a foreign ‘other’ (Liu et al. Apr 25, 2005; Li 2009; Mog-Sidor 2012). Activities, however, are not uniform across all Japanese firms but rather contingent on a firm’s particular experience with risks associated with country-of-origin bias. I argue that only firms with an expectation of being targeted will engage in “socially transformative CSR” or CSR that specifically seeks to mitigate the effects from nationalist protest.

H_1 : Firms that have higher risk exposure are more likely to invest resources in social transformation activities.

Firms that are direct targets of nationalist protests are more likely to seek to transform the social environment in which they do business. Social transformation CSR is thus related but distinct from proactive “activist appeasing” CSR that seeks to either appease socially-conscious consumer activists or NGOs, or deter those same actors from targeting a firm by proactively building a positive corporate image (Lenox and Eesley 2009; King and McDonnell 2012). The intended audience differs: activist-appeasing CSR largely seeks to mitigate damage from the critiques of home consumers or international NGOs whereas the primary audience of socially transformative CSR is the host society. This distinction is important: the potential effects of the CSR will be seen in the host country, not just in the firm’s corporate performance or international reputation.

A firm’s business goals, and the extent to which they depend on Chinese consumers to meet those goals also influences their CSR strategy. International marketing research indicates that animosity or strong emotion towards a foreign country leads to a negative bias against that country’s products (Verlegh and Steenkamp 1999; Amine, Chao and Arnold 2005; Maheswaran 2006). As early as 1998, Klein, Ettenson and Morris (1998) found in experimental research that Chinese consumers selected against Japanese products, independent of product quality. In the China market (at least through the 2000s), foreign brands were said to have an advantage as they symbolized high quality and middle-class consumption (Ouyang, Zhou and Zhou 2000; Zhou and Hui 2002), yet studies indicate that negative political perceptions of Japan overcame Japan’s reputation as a producer of high-quality goods and produced a bias against the purchase of their goods (see also Li 2009). Japanese firms face a reputational bias that is inherently connected to politics, Sino-Japanese relations, and Chinese nationalism that they need to counter to improve their market position in China. I argue that firms that have invested in China to market goods as well as take advantage of lower production costs have greater risk exposure and

thus a greater incentive to counter the effects of anti-Japanese sentiments.

H_2 : Firms trying to market products directly to Chinese consumers are more likely to invest resources in social transformation activities.

H_1 and H_2 are tested statistically using contributions to social transformation activities as the outcome variable.

Lastly, it is important to consider the environment in which the firms are operating. Nationalist protest is not a constant across time. Even in the People's Republic of China, where patriotic education in the schools and public venues such as museums and television programming are constant reminders of Japan's ugly imperial past, active protest against Japan needs to be activated before it presents a risk to business interests.⁴ I argue that CSR strategies will shift away from philanthropic or environmental measures and into social transformation activities as the level of political tension or conflict between Japan and China increases.

H_3 : Social transformation activities will increase after periods of intense political conflict risk.

H_3 is tested using qualitative interview data, as well as across-time comparisons of the different types of CSR activities Japanese firms do in China.

3 Japanese CSR Activities in China

Japanese Corporate China strategists, investment consultants to Japanese multinationals, and Japanese with long China business experience consistently touted CSR activities in

⁴Candidates for activation are many and varied, including statements denying aggression by Japanese public figures, visits from Japanese officials to Yasukuni Shrine, events related to Japan and China's territorial disputes, the anniversary of the Nanjing Massacre or Mukden Incident, a firm's advertising or public relations practices viewed as unfair to or critical of Chinese, or even Japan's victory over Team China in a soccer match. Additionally, there is much debate among observers of Chinese politics as to the extent to which anti-Japanese activity is organic versus the product of of instrumental state-led mobilization. This issue is addressed in the conclusion, but it is also the case that anti-Japanese protests can be spurred by domestic reasons within China independent of any actions by Japanese actors.

China as *the* most effective method of risk management in the face of political tensions and anti-Japanese sentiment. A particular target of Japanese CSR is precisely anti-Japanese sentiment, which is tied to the legitimacy of the Chinese Communist Party through the official discourse of patriotic education campaigns as well as popular discourse and the still-living memories of Japan’s brutal invasion and occupation of China. Finding this “target” takes sophisticated aim, and is not simple to hit. This view of CSR is similar to CSR-as-insurance, or activities that can serve to inoculate firms against country-of-origin bias. Japanese firms in China, intermittently held responsible for their home government in ways that generate significant political conflict risk, adopt CSR strategies to mitigate the effects. Their goals in mitigation are twofold: decreasing the chances that their particular firm will be a target in a current or future demonstration, and transforming Chinese attitudes towards Japan in a more fundamental way such that the future market will be a more secure place for Japanese firms. This section describes the motivations behind social transformation activities in China, based on author interviews with consultants, government officials, and firms. Details on interview sampling and technique are in Appendix A, and Appendix B includes a complete list of interviews.

Firms themselves generally call the activities corporate social responsibility (*kigyō shakaiteki sekinin* and often just ‘CSR’), and consultants or business organizations also refer to them as corporate contributions to society (*kigyō shakai kouken*). These names reflect differences in how social engagement activities are viewed and portrayed by individuals with a wider view versus the firms themselves. Organizational actors and consultants emphasize that Japanese firms are integrating and contributing to Chinese society (*shakai kouken*). Firms themselves adopt the terminology used internationally, with the word-by-word translation of CSR, or use of the English-language acronym. This usage reflects the practical consideration of labeling the activities using widely understood terminology, and also the desire to identify their activities with those conducted by multinational enterprises from around the globe.

CSR sprang into public debate in the 1990s in Japan, but was not frequently discussed with reference to China until the late 1990s. Japan's largest business organization, Keidanren (the Japan Business Federation), first published a policy statement on CSR in 1991, soon after the bursting of the housing bubble had greatly damaged public perceptions of firms. They emphasized the need of firms to "seek trust from citizens and also the establishment of international businesses" through philanthropic contributions, environmental protection, and socially responsible behavior (Keidanren 1991). A review of Japanese books on risk management in China published between 1993 and 2011 reveals little discussion of CSR through the 1990s (e.g. Koga 1994; Sugita 1996), but an increasing focus starting in the 2000s (e.g. Fan 2008; Kenkyuujo 2010). Officials and official publications from the Japan External Trade Organization, a government-funded organization which facilitates Japanese investment abroad push CSR as an appropriate risk management technique (JETRO 2006, 21-24).

A consultant with ties to Keidanren emphasized the need for Japanese firms in China to practice "public diplomacy", or activities such as educational and cultural exchanges that promoted Japan. He explicitly compared Japanese activities that mirrored public diplomacy to those done by the Japanese state. Firms, he emphasized, succeeded where the state failed because of their emphasis on Japan's contemporary cultural and technological achievements opposed to traditional culture (Interview 27). A risk management consultant vehemently rejected a role for the state, arguing that the private sector could better accomplish public diplomacy and in fact had a responsibility to do so. While this perspective was partially ideological (this respondent had libertarian leanings), it also reflected his belief that "social contributions to Chinese society were necessary to counter anti-Japanese sentiment" (Interview 59).

Risk and investment consultants, Japanese and non-Japanese, based in Japan or China, recommend social engagement activities as a risk management tool. After the anti-Japanese demonstrations in spring 2005, China risk management specialist Takahara

Sanjiro wrote in the *Nikkei Sangyou Shimbum* that Japanese firms need to “become a Chinese firm that achieves social responsibility” (Takahara 2005), or in other words to successfully localize through gaining a responsible *Chinese* public image. Firms needed to strive to be perceived not as a Japanese firm operating in China, but a firm that has localized to the extent that they are viewed as a native Chinese business. A Japanese consultant at a private overseas employment firm echoed the concerns about Japanese firms’ ‘image problem’ in China, which he noted could exacerbate economic problems like labor or contract disputes. He similarly suggested that firms need to improve their image through philanthropic activities that could serve as a shield or deflect attention if an anti-Japanese incident arose (Interview 40).⁵

A Chinese consultant based at a large Tokyo think tank emphasized firm’s need to take a long-term perspective rather than focusing on specific instances of political conflict. He emphasized that social contributions to local society were the most important strategy for firms trying to counter anti-Japanese sentiment because they addressed the overall problem rather than treating one small symptom. Social contributions, in the form of philanthropic donations or cultural activities, improve the image of Japanese firms and would enable them to form more effective alliances with local partners and attract a more talented workforce (Interview 48). A private Japanese tax consultant for foreign businesses in China pointed to successful cases of political risk management by firms that managed to persist in the Chinese market despite being targeted by anti-Japanese protests or having production disrupted by social unrest. The firms he lauded, Matsushita Denki and Ito Yokado, are both firms that have pursued broad CSR campaigns (Interview 45). Among other projects (and contributions to the exchange program analyzed below), Ito Yokado sponsors Japanese language education and a speech contest. Matsushita Denki provides scholarships to college students, and sponsors a Japan-China ping-pong tournament.

⁵He also suggested going through Hong Kong as a joint venture, citing the case of restaurant Ajisen Ramen, which pled a Hong Kong identity and managed to avoid broken windows and a consumer boycott in 2005 (see also Shigemitsu 2010).

Two Japanese officials at an organization dedicated to promoting Japanese investment in China strongly emphasized the importance of building positive relationships. The head of the organization, who came to the position with a background as an Asia strategist for a large Japanese automobile company, said that the history problem (*rekishi mondai*) was the constant undercurrent of political risk in China for Japanese firms, and has been since normalization of relations in 1972. Political risks could present problems for Japanese firms because they are unpredictable, their root causes are outside the capability of firms to control, and they lead to an overly pessimistic view of the degree of danger in China. To counter these dangers, in particular the uncertainty, the officials recommend that firms develop long-term relationships with Chinese business partners and local governments, and above all respond to crises calmly (*reisei*) (Interviews 36; 42). A former official from the same organization (now a private consultant) saw CSR as the obviously essential (*atari mae*) component of China political risk management. For large, iconic firms CSR activities are a particularly essential part of a successful long-term China plan. The firms invest money in the activities to establish a good ‘image’ in China, as well as to establish the firm as a more local entity and embed themselves in Chinese society (Interview 43).

The Chinese founder of a non-profit organization founded to promote Sino-Japanese economic exchange emphasized the importance of *inter-personal exchange* and *communication* to overcome economic issues stemming from nationalism and anti-Japanese sentiments.⁶ He advocated technological and educational exchange programs, and cultural exchange not directly related to an economic bottom line as ideal activities for firms to pursue in order to mitigate political risk and improve the business environment (Interview 41).

In order for CSR activities to successfully gain risk management qualities, the activities

⁶This consultant had seen a large loss of clients, which he attributed to firms choosing to either diversify production or skip China entirely and open up production facilities in Southeast Asia. He attributed diversification to rising labor costs in China and political instability in China, specifically citing the 2010 China/Japan territorial dispute over the Senkaku/Diaoyu Islands.

must be not only funded and implemented, but a firm must also inform direct beneficiaries and the general public that the firm was the responsible party. Many Japanese investment consultants are critical of their clients for not being visible enough in their CSR efforts (Interviews 26; 31; 33; 40; 42; 43; 45; 48; 50; 53; 54; 56). Although firms purportedly do contribute to the societies in which they do business, they rarely publicize their efforts and hence do not receive credit for them.⁷ The lack of publicization is potentially also in part attributable to Japanese firms' lack of localization, or partnership with Chinese managers and local officials. If a firm can successfully partner with the local Chinese government, then the local media will publish stories on the event or contribution, and they will publicize it in the appropriate way, such that the firm's names are published in the paper, but not in a way so they look like they are simply trying to placate groups that would otherwise oppose the firm (Porter and Kramer 2006). Firms take care not to offend anybody, or give an impression that social contributions are being used instrumentally. People in charge of firm CSR activities, and Japanese officials with whom they sometimes collaborate, are very cautious as they believe that one small (anti-Japanese) spark will start an (anti-Japanese) wildfire (Interviews 7; 11; 16; 17; 27; 53; 65; Kenkyuujo 2010). This factor adds additional appeal to social transformation CSR, which promotes not the firm but the firm's home society.

⁷The reticence to publicize CSR activities is attributed it to a Japanese cultural taboo against saying positive things about oneself. For example, there was an oil spill in the harbor at Dalian and a large Japanese company with long business ties in Dalian gave the city government equipment and technology to clean it up. The city government offered to pay the company, but they refused, saying that it was their responsibility as a member of the community and a beneficiary as such. The city government then said that they would publicize the company's assistance in press releases, news stories, etc. The company not only said no, they requested (multiple times) to the city government to not publicize the donations explaining that it would negate the purpose, which was just being a good community member (Interview 31). After the Sichuan earthquake, there was reportedly a similar dynamic. Japanese enterprises gave charitable donations but received little public credit because they did not publicize their efforts (Interview 82).

3.1 Types of Activities

Firms engage in a variety of activities under the umbrella of CSR including charitable giving, environmental projects, technical training programs, as well as the social and cultural exchange programs touted by firms and consultants as having potential long-term efficacy against political conflict risk. The *Survey Report of Japanese Corporate Social Contribution Activities in China*, conducted jointly by the Japanese Chamber of Commerce and Industry and the Japan Foundation (part of the Ministry of Foreign Affairs), provides an overview of CSR activities pursued by Japanese firms in China.⁸ It was conducted multiple times, allowing for across-time comparison of CSR activities. Firms that reported activities produced a total of 287 cases for 2005 and 298 for 2009.⁹ Each case is a single CSR activity and so some firms are represented only once in the survey, and others multiple times. The response rates and sample size are summarized in Table 1.

Table 1: Response Rate and Sample Size

	2006	2010
Firms Surveyed	559	388
Firms Reporting CSR (% total)	74 (13.2%)	106 (27.3%)
Sample Size (unique cases of CSR)	245	268

The survey results included short paragraph-length descriptions of each project, which I used to code for different types of CSR. Table 2 describes the broad contents of each type of CSR, and the proportion of each type in the 2005 and 2009 samples. They are

⁸The survey was conducted three times, in 2005, 2007, and 2009, and published in the following years, and this analysis includes only the 2005 and 2009 responses.

⁹In the 2005 survey, of the 559 firms surveyed, 74 reported conducting CSR activities, and in 2009, 106 of 388 firms responded affirmatively. A list of the negative cases - responding firms that did not conduct CSR activities - is not available. 30 cases were also excluded from the analysis because the firms were unable to be identified with their Japanese parent companies or were firms based solely in Hong Kong. The survey uses the Chinese names for firms, and some firms were easily identified as they used the same characters as in Japanese. Other firms were more difficult to match, and were identified by reading the Chinese language websites, and finding confirmation in reference books, such as Toyo Keizai's *General Survey of Overseas Firms* and the Japan China International Trade Promotion Association's *Sino-Japanese Firm Databook*. A smaller number had no web presence and names that had no clear association with a parent company. These firms were excluded because no firm-level data was available.

grouped into three broad categories: CSR for *local society*, CSR for *social transformation*, and *technical* CSR that utilizes a firm's expertise for industry-specific training or environmentally clean technology.

Local CSR, including welfare projects, education, and community outreach, makes up 69% of all CSR in 2005, and 57% of all projects in the 2009 sample. This category includes activities such as sporting events, tree planting, or building 'hope schools' (elementary schools in poor rural areas), and largely targets the direct community within which a firm operates. For example, Omron, a medical equipment manufacturer, operates large production facilities in Dalian and has built hope schools in impoverished areas within Liaoning Province. An exception is disaster relief; Japanese firms made large philanthropic donations after disasters like the 2003 SARS outbreak or 2008 Sichuan Earthquake regardless of whether they operated directly in Guangzhou or Sichuan or not.

While widespread media attention or government approbation of firm efforts may achieve a larger public relations effect for the firm, these CSR activities directly assist only a small cross-section of people, generally in the immediate vicinity of the firm's production facilities. Approximately one-third of these projects are building hope schools or providing scholarships for elementary age school children whose families cannot afford education. These schools are generally geographically close to a production facility and are designed to promote goodwill towards the firm. Tree-planting activities are also common; these activities occur close to a production facility and happen with some fanfare over the course of a weekend with employees traveling to the site and mingling with locals (Interviews 78; 79).

The projects of particular interest in this study - social transformation CSR - encompass cultural or educational exchange and cultural promotion programs, and are designed to promote Japan as a nation. This category also includes some philanthropic activities that do not target populations directly related to the firm but rather generally promote

Table 2: Types of CSR Projects

Type of CSR	Description	2005	2009
<i>Local</i>		168 (69%)	149 (56%)
Welfare	Philanthropic donations including disaster relief, monetary donations to health programs, etc.		
Education	Building schools or providing scholarships for young children unable to attend school		
Community Outreach	Activities undertaken in the same community as the factory or office to improve local relations or company image including cleaning trash around the company, organizing local sporting events, participating in local festivals, planting trees, etc.		
<i>Social Transformation</i>		39 (16%)	74 (28%)
Cultural Exchange	Promoting Japanese culture in China or Chinese culture in Japan through bilateral exchanges, festivals, concerts, art exhibits, Japanese language education, etc.		
Educational Exchange	Bringing Japanese students to China or Chinese students to Japan for educational, training, or cultural exchanges, such as study abroad, home-stay programs, company visits, international conferences, etc.		
<i>Technical</i>		38 (16%)	45 (17%)
Technical training	Company or industry specific training for Chinese workers or students (held in China or Japan) organized by a company but not a work program		
Environment	Corporate measures taken for environmental protection or promotion including environmental cooperation with local authorities, technical environmental assistance, etc.		
Total		245	268

the idea of Japanese amity towards China. Social transformation activities were 16% of total cases in 2005, and 28% in 2009. This type of CSR includes large-scale, highly visible events sponsored solely by Japanese corporations in order to bring the two countries closer together. For example, Aeon (owner of hypermarket Jusco) has a program where 100 high school students do home-stay exchanges every year. The Japan Chamber of Commerce and Industry program, discussed in depth below, involves biannual visits of Chinese college students to Japan, and the participation of more than one hundred firms. Other activities include anime exhibitions or large rock concerts with J-pop icons. These exchange efforts are on a larger scale than hope schools or tree planting, and are often intended to be highly publicized or gala-like events. Social transformation CSR projects target elite groups in society, such as university students (Interview 35; 123).

Both local and social transformation CSR, abundant in the Chinese case at around 85% of both samples, target Chinese society at large, but in different ways. They try and capture the “hearts and minds” of Chinese in order to inoculate against different forms of risk. Local CSR protects the firm in the event of negative incidents in a particularly area, such as a chemical spill, legal action against a firm, or a labor dispute (Interviews 14; 74; 80; 81; 88; 105; 117). Social transformation CSR has more macro designs as it attempts to disarm popular backlashes to bilateral political tensions (Interviews 2; 6; 14; 15; 43; 71; 96; 106). Educational exchange programs or cross-cultural promotion events are common forms of public diplomacy, but they are more typically associated with state efforts. For example, when Japanese firms encountered issues with anti-Japanese sentiments and general distrust in Southeast Asia in the 1970s, it was the Japanese government that took the initiative with Prime Minister Fukuda’s “heart-to-heart diplomacy”, a combination of overseas development aid and cultural promotion (Stirling 1981; Sudo 1988; Funabashi 1998). This point was highlighted by the top Japanese diplomat in China in charge of cultural affairs. In the Chinese case, he said, it is firms taking the lead (Interview 4).

Technical CSR, which works to improve the local environment, provide technological

solutions to environmental problems, or train Chinese workers in technical skills has two aims: cooperation with local government officials and improving the skill-base of local workers. Technical CSR is at similar levels in both samples: 16% in 2005 and 17% in 2009. Technical training provides a district with more employable workers, in particular for more technologically sophisticated, highly-skilled work. Attracting new high-tech companies into a district is beneficial for reaching economic growth targets, and perhaps for local officials career advancement (Bo 2002; Chen, Li and Zhou 2005).¹⁰ These CSR projects help firms build a good relationship with a local government (Interviews 5; 6). Large Japanese companies run training seminars in localities in which they are doing business, or planning to do business, for workers they do not and may never directly employ (Interviews 32; 34; 74; 75; 82; 89; 121).

The environmental measures, similarly, contribute to solving China's serious problems of environmental destruction, which have been given more political prominence since the 2007 introduction of Hu Jintao's "scientific concept of development". These measures, which help to build positive relationships with local government officials, also have the insurance-like qualities of CSR, but not necessarily for political-conflict risk. One firm in the chemical sector reported having a factory closed down by the local government when local residents downwind stridently complained of odors. Upon opening a similar factory in a different locality two years later, the firm waged an aggressive environmental CSR campaign and had the local government's support when citizens lodged similar complaints (Interview 69). Another firm reported experiencing difficulty with the licensing and visa process with the government in the locality they wanted to establish a new manufacturing facility until they introduced the clean environmental technology they would be bringing to the locality (Interview 86).

Technical CSR often takes the form of technical educational programs or providing

¹⁰Recent research from Shih et al. (2012) suggests that economic performance is not a significant factor of higher level officials (central committee members).

specialized solutions to environmental or economic problems. Utilizing a firm’s particular expertise, technical CSR tries to meet a local communities social, developmental, or environmental needs. For example, a large electronics firm runs intensive technical training programs in China that are intended to build positive relationships and leave good impressions of the firm with both the students and the local governments (Interview 87). A chemical company installed the same level of air filters in their China facility as they use in Japan, even though it was beyond the levels required by Chinese law at the time, and outfitted other firms in the area with similar air filtration systems (Interview 88). A company that manufactures medical equipment not only made the effort to hire people with disabilities to a greater extent than other local companies, but also used their in-house facilities and products to promote accessibility for workers in local businesses (Interview 81).

The 2005 survey contains reports of CSR activities conducted previous to the 2005 anti-Japanese demonstrations or before the heightened perception of “China risk”. The 2009 survey contains activities conducted after 2005. Using a paired sample t-test on the types of CSR projects in the 2005 and 2009 samples, with the null hypothesis that the difference in means is zero (that there is no significant change between samples), I analyze changes across time in types of CSR. The shifts between 2005 and 2009 between CSR aimed at localities versus CSR that tries to transform Chinese society are significant, while the null hypothesis holds for technical CSR. The results are summarized in Table 3.¹¹ This result supports H_3 , that social transformation risk management increases with the level of political conflict risk.

An exception to the directly “local” component of local society CSR are philanthropic donations divorced from a firm’s location or business plan, such as the donations made by Japanese firms to victims of the 2008 Sichuan earthquake. Earthquake relief represented

¹¹In these tests, the variance was not assumed to be equal, but was estimated using a Welch approximation. Assuming the variance is equal produces no meaningful change in results.

44 cases (29.5%) in the 2009 survey. Donating firms did not have production facilities or offices located in the affected areas, but in addition to an honest humanitarian response to a terrible tragedy, the donations were also an effort at goodwill economic diplomacy. In particular because the state-to-state efforts of cooperation (the dispatch of the Japanese self-defense forces) were initially rebuffed and met with much criticism in China, the private donations were seen as a huge step towards repairing relations after 2005 nadir (Noguchi 2008, Nihon Keizai Shinbun 2008). If these cases are added to social transformation CSR, the across-time effect is much starker. However, because the Sichuan Earthquake was a one-time event without any cultural or social exchange elements, they are more appropriately categorized as local CSR.

Table 3: Shifts in Form of CSR from 2006 to 2010

	Society-at-large CSR	Socially Transformative CSR	Technical CSR
<i>t</i> -statistic	3.052***	3.247***	-0.3933
<i>p</i>	0.0023	0.0012	0.6942
df	510.75	504.96	509.28

Concurrent with the increase of Japanese risk perception of China, CSR projects that firms use to transform risk - socially transformative CSR - also increase. This rise was accompanied by a decrease in the local CSR projects, indicating that firms are shifting their CSR strategies to respond to the risk environment rather than increasing the number of total projects. Technical CSR has remained constant over time, indicating that the perceived need for this type of CSR has remained constant over time, and that change in risk perception does not dictate this kind of CSR strategy.

4 The Japan Chamber of Commerce and Industry in Beijing's Cultural Exchange Program

While the above analysis suggests that concurrent with a rising level of political conflict risk, firms shifted their CSR programs to ones they believed would counter the newly apparent dangers, it does not make it clear whether targeted firms are the ones participating, or more importantly, how social transformative activities actually work. This section analyzes individual firm participation in one of the largest cultural exchange programs.

In the spring of 2005, as the anti-Japanese riots were spreading from city to city, a group of Japanese business and political leaders informally met in Beijing and debated how to improve Sino-Japanese relations. Present at the meeting were Japanese officials from large “national champion status” Japanese corporations, bureaucrats from the Ministry of Foreign Affairs and Japan Foundation, and representatives from the Japanese Chamber of Commerce. Attendees of the meeting agreed that the current state of affairs was untenable for business, and it was necessary to try and transform Chinese opinion of Japan from the ground up. A suggested first step (ultimately rejected because of cost) was to rebuild to Japan-China Friendship Hospital in Beijing; meeting attendees believed that this visible sign of goodwill between the countries would conjure positive images of Japan rather than memories of militarism and past atrocities. This meeting eventually resulted in two alternatives to the hospital: the CSR survey which is used in this study and a biannual educational exchange program run by the Chamber of Commerce (Interviews 30; 75; 119).

The educational exchange program, “Experience Japanese companies, Come close to Japan”,¹² found rapid and widespread support and the first wave of Chinese students came to Japan in July 2007. The initial goal was to secure funding for one year (two rounds) of the program, but the corporate response in late 2005 and early 2006 was so

¹²In Japanese, (*Soukin Nikki, Kanju Nihon*), which is literally “Run closely with Japanese companies, become receptive/sensitive to Japan”.

positive that they received funding for 10 exchanges. The number of companies and their contributions are summarized in Table 4. The numbers are publicly available in the reports published by the Beijing JCCI after each round of the program. 101 companies (and two individuals) gave money to the program, with contributions ranging from under 100,000 (almost \$900) to 10 million yen (over \$86,000).¹³

Table 4: Contributions

	Amount of Contribution	Number of Companies	Targeted in 2005 Demonstrations (%)
1	Under 100,000 yen	3	0 (0%)
2	100,000 ~ 1 million yen	59	14 (24%)
3	1 million ~ 5 million yen	22	10 (45%)
4	5 million ~ 10 million yen	4	2 (50 %)
5	10 million yen	15	15 (100%)
	Total	101	

The exchange program invites Chinese college students to Japan for approximately 10 days to visit Japanese companies, do a short home stay, and experience Japanese cultural attractions. For example, the November 2007 program featured visits to companies Omron, Toyota, Shiseido, Nippon Oil & Energy Company, Nippon Electric Company, Mizuho Bank, and All Nippon Airlines. Participants also did a one-night home stay, experienced a Japanese farm, stayed at a traditional Japanese hot spring resort, and visited Tokyo Disneyland. The emphasis of the program is to expose young Chinese to the best that Japan has to offer, primarily by highlighting the technological and managerial innovations and accomplishments of Japanese firms, but also through individual interaction like the home stay and positive, fun experiences like the hot spring and Disneyland.

Organizers emphasized the importance of individual interaction with young Chinese (Interview 30; 119). Surveys conducted around the time of the riots indicated that few Chinese (only 1.1% of all respondents and 3.8% of students) had experience of visiting

¹³Using exchange rate of 116 yen to the dollar.

Japan, and a similarly small percentage had a friendly Japanese acquaintance (Sato 2007, 24-7). The program organizers target young Chinese for the economically motivated reason that these individuals have a lifetime of consumption and employment ahead of them. Young Chinese are also the population that claim the most negative impressions of Japan: the same 2005 survey found that 64.6% of students, but only 36.5% of total Chinese respondents reported very bad or somewhat bad impressions of Japan (Sato 2007, 54-5). This result is not surprising: the younger cohort grew up hearing stories of atrocities of the Japanese invasion and occupation from family members, and also had their formative experiences in the era of patriotic education campaigns that emphasize those atrocities (Zhao 2004; Wang 2012). The generation that came of age in the reform and opening up period also missed the apex of Sino-Japanese relations in the 1970s when the Peace and Friendship Treaty was signed.

Officials from the Japan Chamber of Commerce and Industry indicated that their expectations from the program were not to turn Chinese society pro-Japanese overnight, but rather to see a transformation of attitude over the next 30 years, or the passage of a full generation. Recruitment of Chinese talent to Japanese corporations is neither a stated nor implicit goal of the program. Contributions to the program represent an optimism about the ability for individual exchange and exposure to the ‘other’ to make a difference in tense interstate relations, and a willingness to invest resources in that goal (Interviews 30; 119).

Written evaluations suggest that the program is successful in imparting a favorable impression of Japan to participants. The consideration of service providers (waitstaff, bus drivers, etc.) to their foreign guests struck many participants, one commenting: “the consideration and attention to detail of the Japanese was impressive” and others remarked on the kindness and energy Japanese waitstaff put into their jobs. Students also made much of the degree of automation and technical expertise in the companies visited, such as Omron and Toyota. Some students spoke directly of negative beliefs about Japan being

challenged, or their fears about the country overturned. A student commented the he was relieved not to see military units in the streets. In her final summary, a Nankai University student spoke directly to the Chamber of Commerce and participating companies' goals:

Let's work towards actualizing the five-year goals of students in "Experience Japanese companies, Come close to Japan"! Let's deepen mutual understanding between Japan and China! Let's promote feelings of Sino-Japanese friendship through future generations!

This exchange program has proved resilient to political pressures: in fall 2010 and 2012, when cancellations of these sorts of programs were rife due to territorial conflicts, Chinese students still visited Japan with the JCCI program.

5 Firm Participation in the JCCI Program

The first two hypothesis argue that firms that are more vulnerable to political conflict risk will engage more in socially transformative political risk management. I test those hypotheses here looking at how individual firm characteristics and experiences with political conflict influence contributions to the program. Although all Japanese firms share that core characteristic of being Japanese that potentially exposes them to political conflict risk in China, perceptions of risk vary across type of firm and individual experience; it is this perception that guides action.

I argue that CSR contributions are predicted by a company's risk exposure, variables that measure the firm's visibility and presence in China, and controls such as firm size and profitability. Probability of making a contribution (C) of a particular size are estimated with an ordered logit model:

$$Pr(C = j) = \alpha + \beta_1(\text{Risk Exposure}) + \sum_i \beta_i(\text{China Presence}) + \sum_i \beta_i(\text{Controls}) + \epsilon_i$$

with j equal to the five contribution brackets. The outcome variable is contributions

to the Japanese Chamber of Commerce and Industry in Beijing’s educational exchange program (see Table 4), and takes on integer values from one to five. The precise value of contributions is not available, but the brackets are easily and logically ordered, and non-linear, categorical inference is thus appropriate (Long 1997, 114-147). With a sample size of 100, and nine explanatory variables, the sample is on the small but safe side for maximum likelihood estimation (Long 1997, 53-55).¹⁴

The upper brackets of contributions are filled with companies that were exposed to political conflict risk events, and the lower brackets with companies that had not *directly* experienced fallout from the anti-Japanese demonstrations of 2005 but were largely operating in China at the time. There are also seven companies related to travel and tourism which did not have offices or production facilities in China, but were affected by political conflict risk by decreased rates of international travel. A visual check confirms that companies with higher risk exposure donated more. This observation must be taken with caution: top donors are also large, wealthy companies with more resources available.

5.1 Explanatory Variables

The key explanatory variable of interest is **risk exposure**. Other explanatory variables include measures of a company’s risk perception, including proximity to the China’s political center (**Beijing**), how much experience a firm has in the China market (**Years in China**), how important China is to the firm’s operations (**China Facilities**), and a firm’s visibility within China (**Firm Visibility**). Control variables include two measures of a firm’s size (**Capital Stock** and **Employees in Japan**), and two measures of a firm’s profitability (**Return on Equity** and **Debt Equity Ratio**). These two measures approach profitability in different directions. Return on equity measures a firm’s profitability from the money shareholders have invested, while the debt equity ratio measures the extent to

¹⁴I also ran a linear regression using the mean of each contribution bracket as the outcome variable and obtained substantively similar results.

which firm profits are financed with debt. The explanatory variables, and hypothesized effects, are summarized in Table 5, and the correlation matrix in Table 6.

5.1.1 Risk Exposure

Risk exposure measures the degree to which firms directly experience political conflict, and is one gauge of risk perception. Extant literature on CSR and risk management does not examine political risk, explicitly, but does measure other forms of risk such as targeting by environmental or labor activists (Schepers 2006; King and McDonnell 2012), or experience with law suits (Godfrey 2005; Godfrey, Merrill and Hansen 2009; Carroll and Shabana 2010). The literature indicates that a greater exposure to these social or political threats will be correlated with greater participation in CSR. H_1 predicts that higher risk exposure will be positively correlated with higher contributions.

Risk exposure is measured using a media event count of adverse incidents Japanese firms encounter in China. The risk exposure variable is a count of how many times a firm in the dataset was directly targeted or impacted by anti-Japanese actions in China before or during the spring of 2005. The event count was done using Japanese language newspaper articles from the *Nikkei Telecom* database. I selected articles from the *Nihon Keizai Shimbun*, *Asahi Shimbun*, and assorted specialist newspapers that focus on news relevant to particular sectors such as construction, the stock market, electronic products, etc. The *Nihon Keizai Shimbun* (Japan Economic Times, usually called the Nikkei Shimbun) is the Japanese equivalent of the *Wall Street Journal*, or the leading daily national economic print news source. The *Asahi Shimbun* is similar to the *New York Times*, a daily national paper with a more liberal slant. The set of specialist papers do not command a national popular audience, but rather cater to firms or investors within the specific sector. A detailed discussion of the event count methodology can be found in Appendix C.

Over two-thirds of the events in the dataset occurred in the spring of 2005, during large-scale anti-Japanese demonstrations sparked by Japan's bid for a United Nations Security Council seat, and include property destruction, boycotts, and cancelled business trips because of fears for employee safety. Aeon and Ito-Yokado, both large retail chains

that have repeatedly been the sites of anti-Japanese demonstrations, had windows broken or displays destroyed in spring 2005. Large electronics companies, such as Toshiba and Canon, and automobile companies Toyota and Honda had display cases destroyed, were targets of consumer boycotts. Consumers of their products were harassed or spit upon. Firms with high visibility offices and show rooms (such as automobiles or financial firms) boarded up their windows or placed black cloths over the company logo throughout the duration of the crises. Companies across sectors made decisions to forego participation in Chinese trade shows and cancelled business trips to China. Newspaper reporting is necessarily limited, and in the case of the *Nihon Keizai Shimbun* and *Asahi Shimbun*, focused primarily on Beijing and Shanghai, with the exception of exceptionally large events in Chengdu and Xi'an. The press coverage also does not include one of the most salient aspects of the post-crisis Chinese environment: cancelled events and missed opportunities. In the fast-paced and mercurial Chinese business world, two or three months of missed meetings, cancelled trade shows, or unsigned contracts can lead to a missed contract or lost business opportunity. These missed opportunities are an important aspect of exposure to political risk that are not represented in the data set. While adding these immeasurable events would change the scale of risk exposure, it is unlikely that it would change the distribution of risk exposure across firms, so this measurement issue should not affect estimation.

5.1.2 Other Explanatory Variables

I measure **firm visibility** using two metrics: whether a firm has a dedicated storefront in China (0 or 1), and whether a firm sold directly to non-corporate Chinese consumers (0 or 1). The sum of these two measurements gives a number between 0 for low visibility and 2 for higher visibility. Some firms sell their products directly to consumers, but not at a storefront solely dedicated to their product. For example, the company UniCharm makes home products that are sold in stores in China, but not in dedicated UniCharm

stores. Similarly, many electronic products are sold in computer or camera shops, but not in their own brand-name stores. A dedicated storefront, such as a Japanese retailer like Ito Yokado or Aeon or a Japanese product like a Toyota or Honda automobile, increases a firm's visibility, as does selling directly to consumers. A Japanese firm that manufactures seat belts in China for Honda does not sell directly to consumers, whereas Honda does. Increased visibility makes a firm more vulnerable to boycotts, property damage, or becoming an activist's target. Firms with greater economic visibility should also strive for greater social visibility to counter issues with political risk. H_2 predicts that firms trying to market directly to Chinese consumers, or those with a higher visibility score, will contribute more to this program or others like it.

The importance a company places in being close to the center of political power in China is arguably key to understanding whether, and how, they engage in political risk management. Beijing is the political center of China, but is not the locus for FDI and foreign manufacturing that Southern China, Tianjin or the Liaoning peninsula are. Companies that open a branch office in Beijing do so in order to be close to the center of political power (Interviews 20; 32; 49; 69; 75; 83; 87). The variable **Beijing** is binary, and indicates whether a company has offices in Beijing; it is a proxy for the salience that a company's management team feels politics (including a broad range of issues from tax policy to possible joint ventures with large state-owned enterprises and more) have for their company's profit margin.

Firms that see a need for presence in Beijing have a greater sense of political risk than firms that do not, an observation corroborated by the fact that large firms and trading companies that initially based their business in Shanghai have shifted headquarters to Beijing specifically to be close to the political center of power. A large electronics firm, for example, shifted headquarters to Beijing after its CEO took an influential position in a Japanese business organization in order to more closely monitor the Chinese political situation (Interview 20). Executives from large trading companies described a

political/economic division of labor between branch offices in Beijing and Shanghai, respectively. Business matters are primarily conducted in the main Shanghai office, but the political work done in Beijing is indispensable to success (Interviews 70; 75; 83; 87).

The degree of China experience (**years in China**) was calculated simply by subtracting the year the company was first established in China from 2005. Firms with a longer history of doing business in China are more experienced, have more personal and business networks in China available, and may be less vulnerable to political risks, or at the very least less leery of them. Companies with China experience from the very beginning of the reform era (or before) have well-established and close political, as well as economic, relations. One company, for example, demonstrated their political connections with handwritten calligraphy from Deng Xiaoping, and a photo of Hu Jintao shaking hands with the CEO (Interview 67). The general trading companies emphasize their experience managing the political transitions from the beginning of the reform era without withdrawing from China (Interview 17; 69; 72).

China facilities is a count of the number of production or sales facilities a company has in China. This variable measures the salience of the China market for the company, as well as being an additional indicator of experience and visibility. Companies with more facilities in China have more stock in succeeding in China, employ more people, and have more experience establishing and maintaining production and sales facilities than companies with less. This variable should be positively correlated with contributions to the program.

In addition, I employ financial control variables. Firms with more financial and human resources at their disposal engage in more CSR activities (Barnett and Salomon 2012). I thus employ two measures of firm size - **Capital Stock** and **Employees** - and two measures of profitability - **Return on Equity** and **Debt to Equity** - to control for firm characteristics. Capital stock and total employees are taken from the Toyo Keizai Databook. The return on equity ratio (ROE) and total debt to equity ratio (DER) are

from the Mergent Online database.

5.2 Results

Table 7 presents the results of the ordered logit model estimating the likelihood firms will make contributions of varying sizes. Risk exposure is positively correlated with increased contributions; it is significant at the .0001 level with $\beta = .65$, offering support for H_1 , that firms with higher risk exposure are more likely to invest resources in social transformation activities. Firm visibility, however, was not significant; the model provides no statistical support for H_2 , that firms trying to market products directly to consumers are more inclined to donate to social transformation CSR. Neither did a firm's presence in Beijing predict contributions. Likelihood ratio tests on restricted models excluding these variables indicated that they could not be excluded from the model. Years in China is significant at the .01 level, and is negative as expected; the more experience a firm had in China led to lower contribution levels. Capital stock, a measure of firm size, is positively correlated and significant at the .001 level. Neither of the two variables measuring profitability were significant, or contributed to the model. They are excluded in further analysis. This result was surprising, as the CSR literature indicates that profitability is positively correlated with CSR.

I estimate the predicted probabilities of a firm falling into each bracket given different levels of risk:

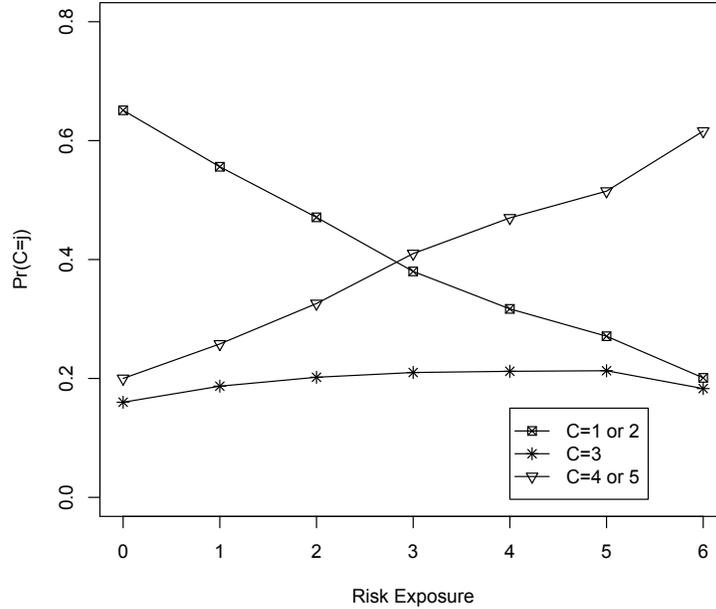
$$Pr(C = j|\mathbf{x}_i) = Pr(\tau_{j-1} \leq C_i^* < \tau_j|\mathbf{x}_i), j = [1 : 5].$$

The results are summarized in Figure 1. The two lower and upper contribution categories are combined to simplify the analysis. For the two lowest contribution categories ($C=1$ or 2), the probability a firm gives at that level falls as exposure to risk rises; the inverse relationship exists in the two highest contribution brackets ($C=4$ or 5). There is little variation in giving for firms giving between 1 and 5 million yen ($C=3$). After a firm's risk

Table 7: Estimates of Contributions to the JCCI Exchange Program

	Model 1	Model 2
Coefficients		
Risk Exposure	0.65 (0.18)***	0.64 (0.18)***
Beijing	0.56 (0.49)	0.54 (0.48)
Years in China	-0.10 (0.05)*	-0.09 (0.05)*
China Facilities	0.08 (0.03)**	0.08 (0.03)**
Visibility	-0.17 (0.34)	-0.17 (0.34)
Capital Stock	2.99 (1.28)**	3.02 (1.27)**
Return on Equity	0.00 (0.03)	
Debt Equity Ratio	0.03 (0.17)	
Intercepts		
1 — 2	-3.16 (0.78)***	-3.20 (0.74)***
2 — 3	1.33 (0.56)**	1.28 (0.49)**
3 — 4	3.00 (0.64)***	2.95 (0.59)***
4 — 5	3.43 (0.67)***	3.38 (0.63)***
Residual Deviance	191.39	191.44
AIC	215.39	211.44
Significance codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.'		

Figure 1: Expected Values of Contributions Given Different Levels of Risk Exposure



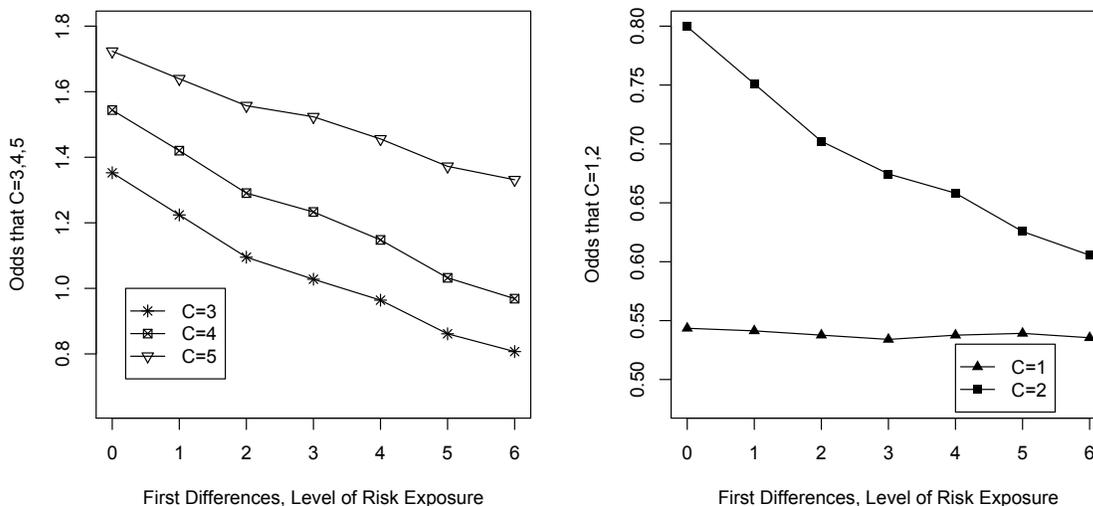
exposure reaches three, the probability they will give in the higher brackets surpasses the other categories. This result is intuitive: as firms are exposed to more risk, they will put more financial resources into countering that risk.

The risk ratio, or the relative odds of a firm contributing at a certain bracket if directly exposed to one additional incident of risk, tells a more complex story. Figure 2 shows the risk ratio

$$= \frac{Pr(C = j | Risk = i)}{Pr(C = j | Risk = i - 1)}$$

for all categories $j = [1 : 5]$. When the risk ratio is greater than one, it indicates that when a firm is exposed to an additional incident of political risk, the predicted probability they will fall into that contribution bracket will increase. The left chart shows the change for the higher contribution brackets, and the right one changes for lower contributions. In the top bracket, a change from no direct risk exposure to a risk exposure equal to one almost doubles the odds that a firm will contribute in the highest bracket ($C = 5$.) A

Figure 2: Risk Ratio with Increasing Risk Exposure



similar, though less sizable, effect is in play for $C = 3$ and $C = 4$. As the level of risk exposure nears 3, however, additional incidents cease to increase the odds. In the lower brackets, the risk ratio is never greater than one, indicating that additional exposure to risk decreased the odds that a firm would contribute in a lower bracket. For the lowest bracket, increased exposure to risk makes no substantive change to the risk ratio.

These figures suggest that the *initial* effects of risk exposure are the most important: the first time a firm is the target of a consumer boycott, or gets its windows smashed is a more important instigator of firm behavior than the second time, and so on. Risk exposure has diminishing marginal returns on contributions to this social transformation program. Risk perception explains this effect: a direct experience with political conflict risk activates a sense of immediate danger from the fallout from bilateral political conflict and anti-Japanese activity in China. Interview responses corroborate this result: respondents from firms that had no direct risk exposure were more optimistic about whether political conflict presented a risk to success in China. Although they were exposed to stories of

firms, products, or even employees being targets of angry Chinese patriots, their own personal experience told a different story (Interviews 66; 74; 80; 88; 90; 92; 93; 108). Respondents from firms with a direct experience of political conflict risk (for example their own or a colleague's cancelled business trip, viewing a demonstration at or near their place of work, or seeing their product destroyed) were much more alarmist, even when referring to events four or five years previous (Interviews 52; 53; 61; 62; 67; 71; 72; 102; 103; 106). After the initial direct exposure, additional incidents had less influence on risk perception.

6 Conclusion

How can we distinguish these actions taken by firms as actual responses to political conflict risk and not simply good business practices that conform to norms emerging from the United Nations Global Compact? The change over time in CSR activities conducted by Japanese firms in China concurrent with increased political risk shows a substantive shift in Japanese CSR strategy. The shift is not in line with the broader goals of the Global Compact such as sustainable development or anti-corruption campaigns, although they do not undermine those initiatives. Variation across participating firms (and the degree to which they participate) in the JCCI program indicates that firms with greater risk exposure are the ones more drawn to CSR programs targeting not only Chinese society at large, but also promoting Japan's public image. Taken together, these two results indicate risk perception driving a shift in political risk management strategy towards a public diplomacy or hearts-and-minds approach, or what I call social transformation activities.

This political risk management strategy was necessitated by shifts in China's place in the world, as well as domestic political changes within the country. China's reform and opening up era necessitated a transformation of nationalism, or ideological reform

that could bridge the contradictions between the revolutionary ideology of communism and market reforms. Deng Xiaoping and the CCP reformers turned to China's past of national shame at the hands of foreign imperialists and the national glory of China's long history to redefine what it means to be Chinese (Wang 2012). As a result, the 1980s unleashed a torrent of anti-Japanese sentiment. Parents began to tell their children of suffering at the hands of the Japanese Imperial Army. The official narrative on Japan, which had been largely silent on the past, was rewritten to bring the past into present narratives (Friedman 2008).

Following the 1989 Tiananmen massacre, the Chinese Communist Party needed to reforge their sources of popular power, and in the 1990s began a series of educational propaganda programs in the form of patriotic education campaigns. The educational campaigns stressed China's unique national condition, and the "need to remember earlier suffering at the hands of the West and Japan to prevent the loss of Chinese identity through foreign cultural and political intrusions, and to accept the need for strong government controls over society" (Zhao 2004, 245). An official, state-led, nationwide campaign began to retell the history of China's "century of humiliation", in particular the War Against Japanese Aggression (the Second Sino-Japanese War), through museums and other popular venues (Friedman 1994; Waldron 1996; Mitter 2000; Zhao 2004; Wang 2012). As a result there was a dramatic resurgence of an anti-foreign sentiment, in particular anti-Japanese sentiment, both in the official discourse of nationalism and popular intellectual and online discourse (Downs and Saunders 1998; Zhao 2004; Shirk 2007; Wang 2012). Concurrent with the rewriting of national narratives, China "opened up" to foreign trade and investment, bringing the ideology of anti-Japanese struggle into conflict with the official welcome of Japanese firms and market access. The ideational shifts in China's political rise have thus created economic risks for Japanese market actors - risks they must respond to as political, even social, actors in order to protect their bottom line.

The social transformation activities of Japanese firms in China are intended to influ-

ence China's domestic politics of anti-Japanese nationalism, a tall order but one officials I interviewed believe is the correct path. In response to a disadvantageous business environment created by this state-sponsored xenophobic nationalism, Japanese firms put financial resources into social contribution programs that promote their home country, particularly for young Chinese. Firm officials do not expect quick corporate returns from social engagement programs, but rather are investing in the longterm future of Sino-Japanese relations. Not all firms follow this strategy. The results of the model indicate that firms with direct exposure to political conflict pour more resources into mitigating them. Moreover, the relationship is not linear: it is the initial and direct exposure to risk that pushes a firm to choose this form of risk management.

The political ramifications of Japanese firms social engagement activities in China are complex. One implication of social engagement strategies is that when faced with a deleterious business environment, these firms do not exit the market but rather choose to stay and engage with the society of workers and consumers from whom they hope to profit. In the face of political conflict, media reports of a coming Japanese exodus from China are clearly exaggerated. In circumstances of high uncertainty, when firms cannot predict where or when the business environment will be negatively affected from political conflict risk, these results imply that firms will attempt engagement strategies attempt to alter the very nature of the risk. In this case, Japanese firms attempt to soften the teeth of anti-Japanese sentiment by transforming the attitudes that inform it. If successful, Japanese firms would no longer present an easy target for discontent Chinese that cannot express their frustration directly at their authoritarian government.

As to the efficacy of the program, while the results from the JCCI program are optimistic, it is too soon and perhaps naive to expect a visible reconstruction of anti-Japanese nationalism. Decades of patriotic education are not so easily countered. It is reasonable, however, to expect that Japanese firms will continue their efforts at improving the business environment within China.

Appendices

A Interview Methodology

Sampling of firms was a combination of a random sample using companies listed in the 2010 databook published by the Japan China International Trade Promotion Association and snowball sampling. In the databook, firms are listed by sector; I contacted the listed China representative in every fifth firm in the book. The book also contains lists of organizations in Japan and China that work to promote economic exchange. I spoke with representatives from all of the organizations I contacted. The response rate from firms was discouraging: only 4% of firms I contacted agreed to speak with me.¹⁵

Due to the sensitivity of the topics, and the nature of making appointments in Japan and China where personal connections are highly valued, relying on random sampling would have produced an unacceptably small sample size. The sensitivity was not only because of the political nature of the discussion, but rather because it touched on corporate strategy, which partially explains why organizations and consultants had a higher response rate. After each successful contact, I asked respondents whom they would recommend I speak to next. If they offered a direct introduction, I accepted, and if not I simply mentioned the previous respondent's name when I contacted the recommended people.

Respondents also mentioned organizations or groups that they found helpful, such as the Tokyo-Shanghai Business Forum, a group that has monthly seminars and networking meals in Tokyo and Shanghai on Chinese business issues or the Japan-China Scholars Association, a group that holds monthly lectures on Sino-Japanese political issues and is attended by academics, bureaucrats, and business leaders. Whenever possible, I attended and participated in events, and later conducted private interviews with people I met there. While not random, these contacts broadened the range beyond the personal acquaintances

¹⁵Of the 1,050 firms in listed in the datebook, I contacted 210 and conducted interviews with 9.

of randomly-selected respondents.

Interviews were not recorded. I took notes during the interviews, and wrote up detailed notes immediately afterwards. After establishing the respondent's China experience and background, we would have a short, general discussion of what "China risk" meant for them and their firm.¹⁶ This question was designed to let the respondent become comfortable speaking with me, and build rapport. The risk question also allowed the respondents to bring up anti-Japanese activities (or not).¹⁷ In two interviews only, anti-Japanese demonstrations or sentiment were never mentioned.

Respondents from firms had a tendency to hide or downplay exposure to risk events. In interviews with the author, firm representatives would sometimes refer to problems that "other firms" had experienced (Interviews 50; 67; 97; 102; 103). When asked about a specific event, the representatives would not lie, but were reluctant to discuss the details. Government officials and officials at representative organizations like the Japanese Chamber of Commerce and JETRO with broad exposure to the experiences of many firms were more forthcoming about the specifics of anti-Japanese activities, but were also reluctant to discuss the details of specific firms beyond the high-profile cases widely reported in the Japanese press.

Following the general risk discussion, I got into specifics of the firm's business activities in China, and why they had made the decisions they had regarding joint ventures, hiring Chinese managers, the process of starting production in China, the degree of business competition they perceived, their relationship with their Chinese partners and local Chinese regulators, and their CSR activities. In the event that the respondent did men-

¹⁶"China risk" can be translated in Japanese in a number of ways. The two most common phrases use either the English or Japanese word for China (*Chaina* or *Chuugoku*) with the English loan word "*risuku*". "*Chaina risuku*" has a far more political connotation as it came into popular use in the cold politics, hot economics era. I used the more value-neutral "*Chuugoku risuku*" in interviews. Some consultants also use the English loan word "China country risk" to refer explicitly to political risk, and the Japanese word for danger/risk (*kiken*) for risk.

¹⁷In the first few interviews, when I brought up demonstrations, boycotts, etc., respondents were primed to think about the importance of this type of risk, and seemed to give it more importance than respondents who were not similarly primed.

tion anti-Japanese activity in China or political conflict risk, I asked detailed questions of what the experience was for the firm, and what their short- and long-term responses were. Respondents were more forthcoming about sharing their own personal experiences than their firms' responses to them. Interviews lasted approximately one hour.

B List of Interviews

Table 8: List of Interviews

#	Date	Interview Type	Location
1	January, 2011	Bureaucrat	Tokyo
2	August, 2011	Bureaucrat	Tokyo
3	June, 2009	Bureaucrat	Yokohama
4	September, 2011	Bureaucrat	Beijing
5	September, 2011	Bureaucrat	Beijing
6	July, 2011	Bureaucrat	Tokyo
7	October, 2011	Bureaucrat	Shanghai
8	February, 2011	Bureaucrat	Tokyo
9	October, 2011	Bureaucrat	Shenyang
10	July, 2011	Bureaucrat	Tokyo
11	August, 2011	Bureaucrat	Tokyo
12	October, 2011	Bureaucrat	Shanghai
13	February, 2011	Bureaucrat	Tokyo
14	October, 2011	Bureaucrat	Shenyang
15	March, 2011	Bureaucrat	Tokyo
16	October, 2011	Bureaucrat	Shanghai
17	June, 2010	Bureaucrat	Tokyo
18	July, 2011	Bureaucrat	Tokyo
19	August, 2011	Bureaucrat	Tokyo
20	October, 2011	Bureaucrat	Tokyo
21	April, 2011	Bureaucrat	Toyko
22	November, 2010	Bureaucrat	Tokyo
23	June, 2009	Bureaucrat	Tokyo
24	September, 2011	Bureaucrat	Beijing
25	October, 2011	Bureaucrat	Shenyang
26	June, 2011	Bureaucrat	Tokyo
27	June, 2009	Business organization	Tokyo
28	February, 2011	Business organization	Tokyo

Continued on next page

Table 8 – *Continued from previous page*

#	Date	Interview Type	Location
29	October, 2011	Business organization	Dalian
30	August, 2011	Business organization	Tokyo
31	October, 2011	Business organization	Dalian
32	March, 2011	Business organization	Tokyo
33	May, 2011	Business organization	Tokyo
34	October, 2011	Business organization	Shanghai
35	September, 2011	Business organization	Beijing
36	October, 2010	Business organization	Tokyo
37	September, 2011	Business organization	Beijing
38	October, 2011	Business organization	Shenyang
39	August, 2011	Business organization	Tokyo
40	October, 2010	Consultant	Tokyo
41	January, 2010	Consultant	Tokyo
42	October, 2010	Consultant	Tokyo
43	June, 2011	Consultant	Tokyo
44	October, 2010	Consultant	Tokyo
45	November, 2010	Consultant	Tokyo
46	September, 2011	Consultant	Beijing
47	November, 2010	Consultant	Tokyo
48	October, 2010	Consultant	Tokyo
49	October, 2011	Consultant	Shanghai
50	October, 2011	Consultant	Shanghai
51	October, 2011	Consultant	Dalian
52	October, 2011	Consultant	Shanghai
53	September, 2011	Consultant	Beijing
54	October, 2011	Consultant	Shanghai
55	September, 2011	Consultant	Beijing
56	October, 2011	Consultant	Dalian
57	October, 2011	Consultant	Dalian
58	September, 2011	Consultant	Beijing
59	February, 2011	Consultant	Tokyo
60	February, 2011	Firm	Tokyo
61	September, 2011	Firm	Beijing
62	October, 2011	Firm	Dalian
63	November, 2010	Firm	Tokyo
64	August, 2011	Firm	Yokohama
65	September, 2011	Firm	Beijing
66	January, 2010	Firm	Tokyo
67	September, 2011	Firm	Beijing
68	October, 2011	Firm	Guangzhou
69	February, 2011	Firm	Tokyo

Continued on next page

Table 8 – *Continued from previous page*

#	Date	Interview Type	Location
70	September, 2011	Firm	Beijing
71	June, 2011	Firm	Tokyo
72	September, 2010	Firm	Tokyo
73	September, 2011	Firm	Beijing
74	July, 2011	Firm	Tokyo
75	July, 2011	Firm	Tokyo
76	September, 2011	Firm	Beijing
77	September, 2011	Firm	Beijing
78	October, 2011	Firm	Beijing
79	October, 2011	Firm	Beijing
80	October, 2011	Firm	Dalian
81	October, 2011	Firm	Dalian
82	September, 2011	Firm	Beijing
83	October, 2011	Firm	Shanghai
84	July, 2011	Firm	Tokyo
85	August, 2011	Firm	Tokyo
86	July, 2011	Firm	Tokyo
87	October, 2011	Firm	Beijing
88	February, 2011	Firm	Tokyo
89	October, 2011	Firm	Dalian
90	October, 2010	Firm	Tokyo
91	July, 2011	Firm	Yokohama
92	October, 2011	Firm	Dalian
93	July, 2011	Firm	Tokyo
94	January, 2011	Firm	Tokyo
95	March, 2011	Firm	Tokyo
96	July, 2011	Firm	Tokyo
97	July, 2011	Firm	Tokyo
98	September, 2011	Firm	Beijing
99	July, 2011	Firm	Yokohama
100	July, 2011	Firm	Tokyo
101	July, 2011	Firm	Tokyo
102	July, 2011	Firm	Tokyo
103	July, 2011	Firm	Tokyo
104	July, 2011	Firm	Tokyo
105	July, 2011	Firm	Tokyo
106	January, 2011	Firm	Tokyo
107	February, 2011	Firm	Tokyo
108	February, 2011	Firm	Tokyo
109	July, 2011	International Cooperation	Tokyo
110	June, 2011	International Cooperation	Tokyo

Continued on next page

Table 8 – *Continued from previous page*

#	Date	Interview Type	Location
111	August, 2011	International Cooperation	Tokyo
112	July, 2011	International Cooperation	Tokyo
113	June, 2011	International Cooperation	Tokyo
114	November, 2010	Journalist	Tokyo
115	October, 2011	Journalist	Beijing
116	August, 2011	Journalist	Tokyo
117	November, 2010	Journalist	Tokyo
118	June, 2009	Public consultant	Tokyo
119	August, 2011	Public consultant	Yokohama
120	October, 2011	Public consultant	Shanghai
121	September, 2011	Public consultant	Guangzhou
122	October, 2011	Public consultant	Dalian
123	September, 2011	Public consultant	Beijing
124	October, 2010	Public consultant	Tokyo
125	June, 2011	Public consultant	Tokyo

C Event Count Methodology

Table 9 outlines the search parameters used to select articles. The articles were downloaded in August, 2011, and contained results from January 1992 to August 2011. The downloaded articles contained the same text as the print version of the newspaper, and the files contained information on print date and page number. In the case of the two daily national papers, the morning or evening edition was also specified. The articles were all read, and selected for relevance and uniqueness. Articles on anti-Japanese demonstrations, for example, included many incidents from South Korea as well as mainland China. Irrelevant articles were discarded.

The articles were read and coded for incidents involving specific firms by the author and a research assistant who was a native Japanese speaker. Any inconsistencies were discussed until there was joint agreement. Each event included a firm, the date of the incident, length of time and location of the incident, the nature of the incident, and the

Table 9: Search Terms for Event Count

Search Term	Japanese
Anti-Japanese demonstration	<i>hannichi demo</i>
Anti-Japanese sentiment	<i>hannichi kanjou</i>
China + Strike	<i>chuugoku suto</i> or <i>chuugoku sutoraiki</i> or <i>chuugoku sougi</i>
China + Risk	<i>chaina risuku</i> or <i>chuugoku risuku</i>
China plus one	<i>chaina purasu wan/+1</i> or <i>chuugoku purasu wan/+1</i>

self-reported degree of influence the incident had for the business. Only events that were tied to a specific firm name were included. For example, if an article reported that a storefront was destroyed, but did not specify what store, it would not be included in the dataset. In the event that a company was interviewed for a piece, but reported no incident, it was included as “no incident”. The type of incidents are listed in Table 10. Interviews done by the author produced a set of deleterious effects that Japanese firms had experienced because of political conflict risk, and these experiences were combined into the twelve categories in Table 10. Each of the incidents is unique; when events were reported multiple times, they were only entered once into the dataset. When the event counts from different media outlets were combined for analysis, repeat events were consolidated into one event. In the event of coding differences across different media outlets, my research assistant and I compared events and discussed until we reached agreement.

China-watchers in Japan complain that the Japanese mass media has a somewhat hysterical and decidedly negative bias in their coverage of China, leading to potential measurement issues (Barranco and Wisler 1999; Woolley 2000; Ortiz et al. 2005; Althaus et al. 2011). In the event of bilateral disputes, they will extensively cover the riots, stone-throwing incidents, and property destruction that occur in limited geographic areas, and ignore the calm that presides everywhere else. This sort of negativity bias is certainly not constrained to the Japanese media alone (Aday 2010; Gilliam Jr and Iyengar 2000). Because the nature of this study is looking for negative events, negativity bias alone does not represent a large problem. More problematic is that the media is biased towards

Table 10: Incident Types and Frequency

Type of Incident	Count (%)
0.) No incident	26 (14.1)
1.) Property Damage	23 (12.4)
2.) Boycott of products	20 (10.8)
3.) Problems with importing/exporting	0 (0)
4.) Strike/refusal of Chinese employees to work	23 (12.4)
5.) Cancellation or postponement of business trip	16 (8.6)
6.) Concern about safety of Japanese employees	31 (16.8)
7.) Concern about safety of Japanese employees' families	1 (.5)
8.) Injury or arrest of Japanese employees	0 (0)
9.) Stock market losses	34 (18.4)
10.) Cessation of business or production	14 (7.7)
11.) Problems with Chinese regulatory process	3 (1.6)
12.) Cancellation of events	4 (2.2)
Total	185

large events. Small cases of political conflict risk, for example a call on the internet to boycott a product unaccompanied by large-scale protests or diplomatic fall-out, are less likely to be reported than more flamboyant, violent, or multi-city events. As a result, the sample will inaccurately mirror the world in that it will contain fewer events than the real world. My expectation is that events will be under-reported in calm periods, and constantly reported in tumultuous times. Because the hand-coded data excludes repeat incidents, over-reporting should not be an issue.

Research also indicates that reportage will have a bias towards actors or locations that reporters already frequently report on (Woolley 2000). In the case of firms, this slant will produce a bias towards large firms that are in headlines more frequently than small firms. This distortion is problematic for testing the hypothesis on national identification, which posits that more visible and culturally/nationally salient firms are more likely to be targeted. Because those very firms are more likely to be covered by news outlets, the dataset makes testing this hypothesis difficult.

Woolley points out that event counts that measure “hard facts” rather than the mean-

ing or motives of events are less subject to bias. Because the events in this dataset are not trying to measure the motive of Chinese protesters, but rather the experience of firms, they are less subject to bias. More subject to deviation from the underlying reality are the impact assessments. Firms may not be entirely honest when giving their assessments of negative effects from political conflict to the mass media. They may want to downplay the event in order to rally investor confidence, or they may choose to overplay the effect to distract attention if they have other, extraneous problems. Firms may also not have a clear understanding of what the longterm effects will be at the time of reporting.

An additional problem is bias within a particular news outlet. The *New York Times*, for example, may systematically report different events than the *Wall Street Journal*. One workaround for this problem is to use multiple sources and run your analysis independently and combined, or to rely not only on national news sources but also local or specialist sources (Barranco and Wisler 1999; Nam 2006). I use multiple sources, as well as “specialist” news outlets, in order to counter the potential bias as recommended by Reeves, Shellman and Stewart (2006).

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