

**JOURNAL OFFPRINT**

# Asia Pacific Business Review

A FRANK CASS JOURNAL

ISSN 1360-2381



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## Communitarian Capitalism: A 'Market' Model for China?

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A China in transition marks a hopeful beginning to the twenty-first century. If China succeeds in its simultaneous move from developing to industrializing country and from command economy to 'market-orientated socialist economy', then one-quarter of the world's population may look forward to economic betterment. Countries are shedding economic systems underpinned by heavy government intervention because these have failed to deliver growth and a better life for their populations (Yergin and Stanislaw, 1998). Faced with global competitive forces, market-orientated socialism attempts to optimize two very different goals: first, the transformation of domestic, state-owned firms into global, competitive firms; and second, the protection of the functions of the state-owned firms – such as the provision of social services (Spence, 1990; Starr, 1997; Westland, 1998). To achieve the goals, Deng Xiaoping set out two basic principles: first, reforms should promote rapid economic growth and not weaken the party's control of the political system; second, everything else is negotiable (Starr, 1997).

North's (1990) hypothesis is germane. Institutions, constrained by economic scarcity, create opportunities in a society. Organizations then emerge to take advantage of those opportunities, which in turn alters the institutions themselves. Some such process is underway in China. The operative question, however, is: Which institutional 'model' of capitalism seems the most suitable to encourage China's economic growth, within the constraining principles?

As capitalist regimes – American-style 'individualistic', European 'statist' and Japanese-style 'communitarian' – of the global triad

contend for dominance in the emerging world economic order, China is emerging as a critical battleground. Perhaps that characterization understates the importance and distinctiveness of Asian regimes – in particular, Chinese family business of Hong Kong and Taiwan, *chaebol* conglomerates of South Korea and the *keiretsu* and *kigyo shudan* corporate groupings of Japan. This study examines the utility of the Japanese model for China's transition to 'market-orientated socialism'.

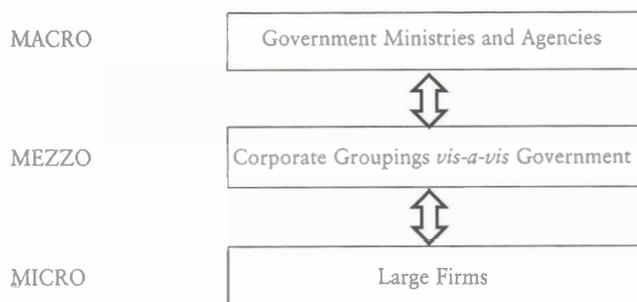
Many scholars, looking to Japan for guides, have focused on the transfer of Japanese management techniques to China (Ma, 1997; Wong and Tjosvold, 1998); Japanese business strategy in China (Ritchie, 1997); similarities of Japanese, US and Chinese 'conglomerates' (Chou, 1997); and the viability of Japanese corporate governance itself (Bostock and Stoney, 1997). This contribution focuses on the applicability to China of the complex, enormously successful, but recently troubled Japanese model of industrial capitalism. The first section very briefly explains the Japanese model; the second assesses the feasibility of the Japanese approach to China's transformation. The concluding section addresses some of its implications for China and foreign firms.

## UNDERSTANDING THE JAPANESE CAPITALIST MODEL

Japanese communitarian capitalism operates on three levels: macro-level relationships between national governments and between the Japanese government and business; mezzo- or intermediate level relationships among and within corporate groupings and between business groups and the government; and micro-level relationships between a firm and its corporate grouping and between the firm, its industry and the Japanese government. Figure 1 illustrates these levels of Japanese industrial structure.

At the macro level, a government 'roof' provides domestic markets with some measure of protection from the competitive incursions of foreigners. Macro-level decisions involve consensus-orientated government planning to establish and implement policy (Ouchi, 1984). Second, private-sector corporate groupings both act together through the *zaikai* to establish national direction and compete through their member firms. Government, through industry advisory councils and the *zaikai* (big business groups such

FIGURE 1  
JAPANESE INDUSTRIAL STRUCTURE



as the Federation of Employers or the Keidanren), interacts to develop agreement upon, and then coordinate the implementation of, national policies. This interface gives government great flexibility to utilize fine-tuning measures to help specific industries while not impairing overall competitiveness (Okimoto, 1989). The Japan model presupposes relatively independent interests apart from government. It also provides big business with a very large say in government policy. In other words, Japanese policies, practices and institutions are the way they are because the various Japanese interests, particularly big business, want them that way.

At work here is not the familiar notion of cooperation between government and business; rather there are 'reciprocal relations'. For example, the Japan Fair Trade Commission (JFTC) may pursue antitrust measures with some flexibility so as to prevent 'overcompetition' in the domestic market. Thus, producer cartels may be formed since Japan's economy favours the 'producer' not the 'consumer' (Thurow, 1992). Government builds an industrial policy by a type of national 'ringi' system – consensual decision making – wherein 'the government is the captain and the Zaikai [big business] the compass of the ship' (Yanaga, 1968: 34). When national priorities are at stake, MITI (the Ministry of International Trade and Industry) may encourage firms to seek efficiencies beyond their corporate groupings. For example, the world's largest steelmaker, New Japan Steel, sells its output to a dozen trading companies. In turn, the trading companies may assist in acquiring iron ore for New Japan, in selling steel, or in selling steel products such as ships domestically and internationally. Abroad, MITI promotes open markets and free trade.

### *The Critical, Unique Intermediate Level*

At the intermediate level, individual firms often group themselves into 'alliances' (Gerlach, 1992; Gomes-Casseres, 1996; Dunning, 1997). Popularly known as *keiretsu* (but usually more properly called *kigyo shudan*) they are a blend of political-financial, strategically coordinated, bank-related, industrially linked and intermarket relationships (Ross, 1991). They form both an institutional bridge between government and business, and a philosophical, strategic and structural context for the Japanese firm. Corporate groupings compete fiercely domestically, yet can also cooperate fully in attacking foreign markets. They represent a stable yet continuously evolving set of political and business structures and relationships which provide member companies with the support to vigorously pursue international market opportunities. This intermediate institution is the hallmark of Japanese-style capitalism.

An integral part of a corporate grouping is its trading company. Most have offices and long-standing connections in China. The largest six *sogo shosha* (trading companies) with assets in excess of \$50 billion, both connect their *keiretsu* members to the global market and bring market opportunities to their *keiretsu*. These relationships serve to 'internalize' many intermediate product and labor markets and tie foreign countries and companies into Japanese corporate grouping networks. A trading company's distinctive competence lies in its matching of buyers and sellers of diverse products and the playing of many different roles (Yoshino and Lifson, 1986). For example, Mitsui & Co. helped develop Japan's cotton spinning industry by, first, procuring foreign spinning technology and machinery. As domestic cotton supplies were depleted it found stable foreign sources and then stimulated the weaving industry by buying the products for distribution at home and abroad. Seldom do the *sogo shosha* engage in one-time transactions; more usually they prefer multi-stage involvement in vertically integrated commodity systems and in such products as textiles, steel, metals, chemicals and food. Often, ancillary services such as financing are provided.

At the micro level, a *kaisha's* (large firm) vertical corporate grouping (*keiretsu*) may be linked to an inter-industry, horizontal *kigyo shudan*. The *keiretsu* system serves as an enabling context for firm strategy. For example, core group banks provide stable sources

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of long term capital for expansion and continuous upgrading of skills, technology and equipment. Group trading companies may support sales and marketing. Further, members support group member firms as they move to attack foreign markets. To what extent is the Japanese model compatible with changing Chinese economic, social and political environments?

### ASSESSING THE ADAPTABILITY OF THE JAPANESE MODEL TO CHINA

Much discussion of market economies seems to be premised on the notion that they are similar. Yet the variety of successful forms suggests that there are a variety of ways for institutions to adapt to business environments. In order to analyse the 'fit' between Japanese approach and Chinese circumstances, we illustrate North's hypothesis with examples from political-economic and socio-cultural institutions. The aim is to develop more appropriate policy and strategy responses for both government and business leaders.

#### *Political-economic Institutions and Environment*

An institutional link between freedom of economic choice and freedom of political choice has yet to be forged in China. Chinese leaders are walking a tightrope. To one side lies stasis, as falling back on the old planning system could simply add new layers to the ranks of intermediaries; to the other lies turmoil. Party and military elites and families jockey for position as they work out their roles in a market economy while China struggles to build a post-Marxian rationale for individual political and property rights. Now, however, there exists a clear alternative capitalist structure that may provide some balance, and it is one with which China's leaders have great familiarity.

Much Japanese experience is relevant to China. Soon after the Second World War Japan saw the need to: utilize industrial policy measures to get resources to critical areas; abolish many economic controls and liberalize trade and capital flows; develop a base for competition; create a market for corporate stock ownership and improve managerial skills; convert military industries to civilian uses; encourage capital formation in business, for example through generous depreciation allowances; enhance industrial technology

(for example, establishing subsidies and favourable tax treatment for R&D activities and checking increases in royalties to conserve foreign exchange); promote exports (for example, the government established the Export-Import Bank of Japan in 1951 for export financing and the Japan External Trade Organization (JETRO) in 1954 to carry out overseas market research); and encourage the 'soft' infrastructure of the economy (such as the promotion of industrial standards and the creation of laws on patents and trademarks). This same list could belong to China.

Major differences exist between China and Japan. According to the China Statistical Yearbook (1996) over 75 per cent of China's people live in rural areas, with agriculture providing over two-thirds of the employment. About 25 per cent, or 300 million people, live in urban areas. About 100,000 state-owned industrial enterprises (as well as two-thirds of the wholesale distributors, two-fifths of the retail outlets, and virtually all the banks, schools and hospitals) form the core of the economy. Noteworthy is that the military 'own' a significant percentage of these enterprises. State-owned enterprises account for 18 per cent of employment and 36 per cent of output. There are approximately 33,000 townships in China each with about 750 collective enterprises. Of this 750, 300 are production sector, 300 service sector, 10 are agricultural, and the rest are construction and transportation. Additionally, over 2 million industrial and 2 million service collectives are in the major cities. All told, collectives employ 76 per cent of Chinese workers and produce 49 per cent of the output. While still a relatively small proportion of the Chinese economy, the over 500,000 private enterprises (this includes 200,000 foreign joint ventures) represent its fastest growing segment. Private enterprise accounts for 6 per cent of employment and 15 per cent of output. Overall, GNP per capita amounts to \$620, purchasing power parity estimates of GNP per capita raise that to \$2,920, and the growth rate is 8.3 per cent (World Bank, 1997).

Various structural reforms are needed to improve the chances for success of the high growth private segment. These include a price mechanism to enable realistic prices and a financial system to facilitate commerce and international transactions. Rational decisions could then be made about resource use, privatization and incentives (for example, wages tied to productivity and competition from other firms), all of which require a strong currency (Lipton and Sachs, 1992).

The weather difficulties of August 1998 have brought to light endemic PRC corruption. To illustrate, billions have been poured into dams and other large scale infrastructure projects by both the central government of the PRC and the International Monetary Fund (\$30 billion in the period 1980–97). Many dams and dikes supposedly built to contain flooding are failing because of improper construction. Billions were siphoned off into individual pockets.

China and Japan are similar in that their economies are highly protected and export driven. China's trade surpluses have created US\$121 billion currency reserves, and attracted \$42 billion investments. The bilateral trade surplus with the USA was running at \$49 billion. Economic reforms began in China in the mid-1970s with four Special Economic Zones in the southern coastal region. Much early capital, technology and know-how came in small to medium scale ventures from overseas Chinese. Their foreign investments also began to provide links between global markets and the collectives of the townships and villages. This growth of private and semi-private business created market pressure on state-owned enterprise. At the macro level, government sets policy and organizes economic activity. While this contravenes official International Monetary Fund (IMF) policy, to a considerable degree eminent Chinese agree with Japan's MITI that 'the IMF first seeks macro-economic stability. After that they think the market will decide. From our thinking, this is not enough. Some kind of industrial policy is needed to supplement' (Schlesinger, 1992: A9).

#### *An 'Intermediate' Level in China*

The National Peoples' Congress is responding to global pressures by creating clusters of formerly state-owned enterprise. Their rationale appears to have several facets: first is the attempt to restore state companies to health so that some outstanding loans can be repaid. The primary means employed is through rationalizing state-owned enterprise. As stronger companies take over weaker ventures, chronically unprofitable companies will be absorbed. An example is Sinochem, which began in the petrochemicals industry and is diversifying into industrial projects, maritime shipping, retail, theatres and other areas. By 1995, it was 26th in Fortune's ranking of international companies. A less sanguine example is the Baoshan Group's takeover of Shanghai

Metallurgical Holdings and Wuhan Iron and Steel. As the Asian crisis grows, China's steel industry faces declining demand, declining prices and excess labour. Baoshan, profitable and with an excellent credit rating, must absorb unprofitable firms with over ten times its employees (Chang, 1998).

Selected companies get preferential treatment in loans and research and development funding in order to assist them to become competitive. A prime example is the government-owned China International Trust and Investment Company (CITIC), a development bank modelled on the Japan Development Bank. CITIC provides capital to enterprises, and equity participation through holding companies and through joint venture links to foreign capital, technology and markets (Leung, 1996). Yet clustering may obscure the need to nurture new, small firms. Smaller firms typically grow due to product and market innovations rather than cost reductions and rationalization. Thus longer term economic growth comes from helping small firms expand. Both the emerging groups and the state via CITIC may have a role in this, but only if the need is clearly recognized and met with an appropriate response.

The second facet is the attempt to shield enterprise from political interference and, further, to counteract political interference in economic reform. In the former instance, a state-owned holding company is formed to oversee the activities of a group. For example, the China Aerospace Corporation located in Beijing, acting on a directive from the Aerospace Ministry, instructs XiAn Aerospace to consolidate aerospace parts manufacturers. Additionally, joint ventures and multinational, multi-product trading arrangements may be encouraged. XiAn, for example, has a joint venture with McDonnell-Douglas. Obviously, government still retains control of the group and over whatever arrangements are made.

Forward and backward integration of activities is meant to affect not only the economies of production but also the politics. For example, in aircraft manufacturing, creating integrated clusters of enterprises cuts across both ministerial jurisdictions (under the Ministry of Aerospace Industry and the Ministry of Machinery and Electronics) and administrative authorities (such as provincial councils). Table 1 sets out seven industry groups established in the early 1990s.

TABLE 1  
CHINESE 'INTERMEDIATE' GROUPINGS

<i>Group</i>	<i>Industry</i>	<i>Total Assets</i>
Baoshan Iron & Steel Group	Steelmaking	\$9.2 billion
Haier Group	Appliances	\$4.1 billion
Shanghai Automotive Group	Automobiles	\$4.0 billion
Sichuan Changhong Group	Televisions	\$1.7 billion
North China Pharmaceutical Group	Drugs	\$866 million
Jiangnan Shipyard Group	Shipbuilding	\$658 million
Peking University Founder Group	Software	NA

*Source:* Adapted from *Wall Street Journal*, 30 April 1998, p.R9; and Chou, 1997.

This type of integration is roughly akin to earlier Japanese *zaibatsu* – pre Second World War, family owned, diversified holding companies, which were disbanded by SCAP (Supreme Command Asia Pacific). They had quickly reformulated themselves into vertical *keiretsu* and horizontal *kigyō shudan*. The *zaibatsu* model is closer to the one followed by South Korea's chaebols, and most Asian country conglomerates.

Third, is the attempt to develop functioning groups of enterprise as being more viable and attractive to foreign investors. Walder (1995) observes that the Chinese have tended to avoid Western economic advice. One such example is privatization. Fearful of repeating Russian experience with the sell-off of state assets – rigged auctions, military ownership of business, and contracts for a politician's own company (Brooks, 1993) – China's approach to privatization has been indirect. Two stock markets – Shanghai and Shenzhen – sell four classes of equity shares: A shares for PRC citizens, B shares for foreigners, H shares for selected Hong Kong listed securities, and N shares for selected securities also listed in New York. Typically, only some of the equity of an enterprise is available for sale (Rawski, 1995). About 10,000 state-owned companies are slated to become publicly traded companies (currently some 750 companies have shares listed on Shanghai and Shenzhen exchanges) which also creates a need for stronger financial reporting requirements (Westland, 1998).

Mergers and acquisitions, which serve both as a kind of capital market and a means of privatization, may occur through Asset Transfer Centres. Although theoretically it is possible for a private firm to acquire a state-owned firm, this is very difficult because of their quasi-governmental functions – providing social services,

health care, housing, education and employment. Usually, however, either a state-owned firm acquires another state-owned firm or a state-owned firm partners with a private firm and forms a new enterprise. Further, it is not likely that so-called backbone industries – energy, communication, transportation – will be fully privatized (Dong and Hu, 1995).

An alternative to indigenous groupings are direct links with Japanese corporate groupings. Such links could provide the Chinese government with a model for financial intermediation as well as Chinese business with access to capital and complete development packages. On the Japanese side, political-business leaders are clear in their aims. Claims Koichiro Ejiri, former head of Mitsui & Co. and the Japan Foreign Trade Council, 'the development of the Asian economy with Japan at its center will be beneficial to everyone' (Fortune, 1992: S-12).

### *Socio-cultural Institutions and Environment*

Is there a demonstrable connection between culture and industrial structure? Table 2 sets out cultural dimensions for China, including Hong Kong, and Japan based upon values that incorporate the Chinese Value Survey (CVS). The dimensions are: power distance, individualist/collectivist, masculinity/femininity, uncertainty avoidance and, added by the CVS, long term orientation. L, M, H reference relevant locations within the range of values for a specific dimension (Hofstede, 1980, 1991, 1993). We note that 'national' cultural dimension scores may be too broad, and effort should be made to include regional, ethnic and language variations. For illustrative purposes, however, national dimensions may assist in assessing the applicability of the Japanese model to China.

China has a relatively high power distance (PD) – that is, the extent to which a society accepts the unequal distribution of power within its institutions. Its score places it among the top ten countries (50 countries in the Hofstede (1980) studies, 23 in the CVS (Hofstede, 1991), but these countries mostly overlap). PRC Chinese, based upon Hofstede scores, tend to prefer formalized organization, authority from the top and centralized power, as well as a relatively high level of formalism in relationships and communications. Shenkar and Ronen (1985) note that Chinese negotiators are influenced greatly by their emphasis on social obligations and notions of politeness and emotional restraint. Thus,

TABLE 2  
CULTURAL DIMENSION SCORES AND STRUCTURAL 'FIT'

<i>Dimensions/Countries</i>	<i>PD</i>	<i>IND/COLL.</i>	<i>M/F</i>	<i>UA</i>	<i>LTO (CVS)</i>
China (PRC)	80H	20L	50M	60M	118H
Hong Kong	68H	25L	57H	29L	86H
Japan	54M	46M	95H	92H	80H
Culture/ Structure 'fit'	neutral/ negative	neutral/ negative	neutral/ negative	neutral/ neg active	positive

*Source:* Based on Hofstede, G. (1993) 'Cultural Constraints in Management Theories', *Academy of Management Executive*, Vol.7, p.91.

the cultural bias is towards a formal, centralized organization with control from the top.

On the other hand, the Japanese power distance score places it 33rd of 53 (Hofstede, 1991: 26), meaning that there is a preference for consultation over authoritarian rule, but organizations are still not prone to be organic, flexible or with decentralized power. Other things being equal, then, the greater a country's power distance scores, the greater the preference for centralized, relatively authoritarian organizations. Thus, we rate this factor as having an essentially 'neutral' but slightly negative influence on the adaptability of the Japan model to China.

The individualist dimension relates to societies in which connections between individuals are essentially 'each person for himself/ herself'. Individualist cultures see the self as autonomous and independent. At the polar extreme, a collectivist culture describes societies in which people are part of cohesive groups, with individual loyalty offered in exchange for protection by the group. In collectivist cultures, a conception of the 'self' develops as an individual learns connectedness to others and acquires deeper discernment about others' expectations of correct and incorrect behaviours (Kitayama *et al.*, 1997). Individuals then are seen as part of an interconnected social web whose focus is to correct shortcomings (Bailey *et al.*, 1997). Hofstede (1991) notes a correlation between power distance and collectivist scores: in cultures where individuals depend upon ingroups, often there is also relatively large power distance. We would rate this dimension too as 'neutral-negative' in terms of 'fit'.

On these two dimensions, Hong Kong is closely aligned with China. In Hong Kong, Chinese family business (CFB) tends to be either family members only or a 'clan' consisting of a core of family members, plus relatives and outsiders. CFB may be summarized as paternal, familial, hierarchical, personal, and subject to mutual obligations and connections (Redding, 1990; Chou, 1997). Thus, the 'clustering' tendency is similar in China and Hong Kong, but the nature of the cluster differs.

China has a medium uncertainty avoidance (UA) score – that is, a preference for stability, order and predictability – while Japan is in the 'high' category. Since many strategic problems are unstructured, their solution involves innovation, and tolerance for ambiguity. Uncertainty avoidance suggests less tolerance and less flexibility in dealing with different-from-the-norm ideas and a greater belief in experts. On the other hand, it also suggests that where implementation requires attention to procedures, precision and stability, then it may be a strong positive. This again suggests a proclivity for centralized organizations. Hofstede (1991) notes a correlation between strong uncertainty avoidance and high collectivist scores: in such cultures, rules tend to be formal, implicit and traditional. Communications tend to be high context. Hall (1976: 79) explains: 'a high context communication . . . is one in which most of the information is either in the physical context or internalized in the person, while very little is coded, explicit, transmitted as part of the message. A low context message is just the opposite; i.e. the mass of the message is vested in the explicit code.' High context countries include Japan and China; low context countries include Germany and the United States. We thus conclude that, other things being equal, the greater the power distance, the greater the collectivist, and the greater the uncertainty avoidance scores, the greater the prevalence of centralized, bureaucratic organizations. We rate this dimension as neutral-negative as well.

On the masculinity/femininity (M/F) dimension, masculinity is associated with earnings, recognition, opportunities for advancement and distinct gender roles. Production efficiency is an important value. The femininity score is associated with relationships, cooperation, employment security and overlapping gender roles. Assertive behaviour may be fostered by masculine cultures but tempered in feminine ones. Performance and success

may be important goals in masculine cultures, whereas welfare and happiness tend to be more important in feminine cultures. China's M/F score is mid-range. Japan's score is highest, at 95, of all countries studied. By way of comparison, Sweden's is lowest at 5, and the USA's is 62 (Hofstede, 1991: 84). We rate this dimension as neutral-negative.

On the long term orientation (LTO) dimension, the top five countries are China (118), Hong Kong, Taiwan, Japan (80), and South Korea (of the 23 countries in the study). Long term orientation is associated with a concern for the future, persistence, perseverance in pursuing goals, having a sense of shame, and thrift. These values relate to other dimensions. For example, 'having a sense of shame' underpins the notion of self in a collectivist society as being connected to others in a group and encouraging the keeping of commitments. Thrift provides savings for investment. Persistence is a fundamental trait of any entrepreneur. Further, a strong correlation exists between LTO scores and economic development for the period 1965-87 (Hofstede, 1991:166-7). These scores also have implications for would-be partners. Park and Ungson (1997) note that international joint venture longevity decreases with the cultural distance between partners (cultural distance means the degree to which cultural norms in one country differ from those in another country (Kogut and Singh, 1988)).

Short term orientation was associated with respect for tradition, saving 'face', and reciprocal favours. For example, a too-traditional approach may slow innovation. Or, for example, the Chinese notion of *guanxi*, or connections, is more a reciprocal obligation to respond to requests for assistance than a simple interpersonal relationship (Tsang, 1998). Historically, many Chinese have lived in hierarchically organized, closed communities with ruling elites controlling and allocating resources. The only way for most Chinese to gain access to resources has been through connections. Whitley (1992) shows how primarily family-based relationships underpin many of the extensive networks of Chinese business. The LT/ST mix of values, taken with PD scores relating to acceptance of unequal power, may lead to an emphasis on stable, harmonious relations within hierarchical organizations.

On balance, the socio-cultural environment seems to pose few insurmountable hurdles to the Japan model.

## CONCLUSIONS

The new reality for the Chinese people is a growing exposure to global economic forces. Two main needs emerge: first, weave new patterns of efficiency-inducing competition from the old fabric of bureaucratic bargaining; and, second, deliver growth. Just as countries reject the excesses of government intervention, so also 'free market' capitalism will be rejected unless it delivers economic growth, employment and improved living standards. Can the Japanese model deliver for China? Stated differently, which model of capitalism has been followed by virtually every East Asian industrializing country since 1960? If we examine these now-tarnished countries, their failings come down to some variation of 'corruption'. US experience with securities markets just after the Crash of 1929 may be instructive. A bank examining committee report on bad loans noted that often they had been made to friends and relatives of bank directors, judges and politicians (Wigmore, 1985: 121-2).

*Implications of the Japanese Model for Chinese Leaders*

Japan has successfully exported its political-business model to many areas of the world. Hollerman (1988) documents Japan's movement of its older 'smokestack' industrial base to offshore, lower wage areas in order to reduce costs and increase 'imports'. Headquarters remain in Japan, along with most high value added manufacturing. Products serve the local market and may be reimported to Japan. It is in this context that much development has occurred in newly industrializing countries. The economies of Malaysia and Thailand, for example, have been integrated into Japan due to supply chain and investment ties with Japanese corporate groupings. The effects on the developing country are mixed – on one hand it gets much-needed industry and jobs, yet on the other it may also get locked into smokestack industries and the low end of the value chain.

Chinese products are expected to compete head-on in the world economy. China is expected to do in a few years what took Japan forty. For China, the challenge is to open a path to institutional change. This entails proper incentives to ensure appropriate institution-organization interaction and feedback (North, 1990) and the increasingly efficient use of scarce resources. As noted,

Japanese groupings are not merely conglomerates. A critical political-financial function of corporate groupings is to form a mezzo-level bridge between government agencies and relatively independent business interests that assists in the development and vetting of national policy. It is this area in which adapters of the Japanese model are most deficient.

#### *Implications of the Japanese Model for Foreign Firms*

Three main implications emerge: the importance of working with China to meet China's goals; the need to overcome many obstacles in the China environment; and the importance of political backing to business negotiations.

*Meeting China's goals.* The international competitive implications are striking. Many advantages could flow to Chinese firms linked to trading companies. The *sogo shosha*, for example, can package mammoth deals including hardware, software, personnel, infrastructure (transportation, power, communications), financing and markets (Cutts, 1993). The components in the package are drawn primarily from firms within a corporate grouping and often can include special Japanese government dispensations as well. Increasingly, competition is waged between corporate groupings on a scale beyond the capability of even the largest single firm.

Even strategic alliances and international joint ventures may fall short of *sogo shosha* clout. To the extent that this situation obtains, international managers may suffer barriers to access similar to those into the Japanese market. One response is to create more custom-tailored deals.

From the Chinese perspective, however, both Japanese and Western firms are still foreign firms. Thus large turnkey companies, such as Fluor or Bechtel, and service companies which create and enhance indigenous capabilities should find opportunity.

*Overcoming market obstacles.* Getting paid presents a special challenge. Since only the highest priority items will be bought for hard currency, most foreign firms will have to learn to deal with the intricacies and variations of countertrade. In the commodity countertrade model Western firms accept local currencies for products and services, purchase local goods with local currencies, and then sell these goods through international commodity

exchanges. Or, in what may be called the 'McDonald's variation', Western firms may choose to reinvest in China, with repatriation of proceeds well into the future.

All foreigners face similar obstacles to doing business in China. The challenge for the foreign firm is to clearly delineate a business strategy for dealing systematically with institutional environments, which includes meeting China's need for job creation. On balance, effective Chinese demand rests with about 150 million people. China's leaders need to improve the economic lot of one billion, two hundred million people.

*Negotiating deals in a political-business context.* China's choice of direction is by no means preordained. Business deal making will be within the political context of China's interests. Western firms are seen as representatives of their countries and thus may be subject to other than economic considerations. For example, just as developing countries once sought aid and military assistance by playing off Soviet and US interests against each other, so also China may seek economic benefits by counterbalancing Japanese and Western interests. Clearly, this has already been the case with respect to Taiwan. Foreign governments, then, are at least implicit partners, along with foreign and Chinese firms, in most large deals.

Dramatic redefinition of the role of the state and the market appears to be assisting the rise in Chinese living standards. Globalization and technological change, however, also bring anxiety, job dislocations and economic crises. The challenge to China's leaders is to ameliorate the insecurities and deliver the growth.

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