

CHANGING CHINA RISKS

— PERSPECTIVES AND ATTITUDES NEEDED TO EVALUATE CHINA RISKS PROPERLY AND VIEW THEM WITH APPROPRIATE CAUTION —

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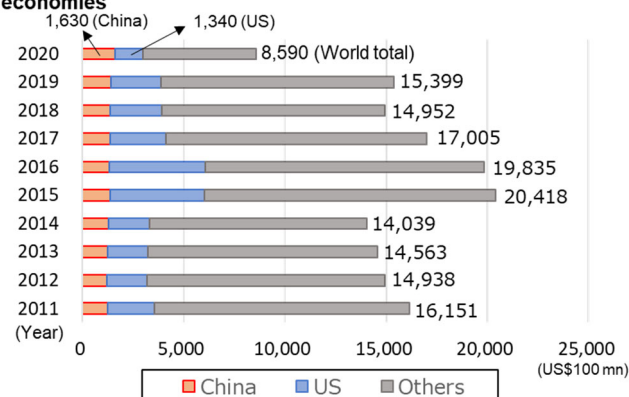
SUMMARY

- While China is developing and maturing significantly in economic terms, its “idiosyncratic” political system is also being strengthened and, as a result, Japanese companies are facing a challenging situation where opportunities for business in China are expanding hand in hand with an increase in the complexity of the related risks.
- This report defines China risk as “Chinese factors that could damage the earnings and reputation of Japanese companies,” and discusses perspectives and attitudes for objectively assessing this risk, without bias based on prejudice or emotion.
- In this report, China risk is assessed from the following five perspectives: (1) probability, (2) preventability, (3) size of loss, (4) damage control, and (5) persistence of impact, and a case study is presented using a hypothetical Chinese business as an example.
- The lens through which Japan views China is unique even from a global perspective, and it is important to take a bias-free approach when assessing China risk in general, especially the core China risks that are deeply Chinese in nature.

AN ECONOMIC POWERHOUSE OF A PECULIAR NATURE

China is on course to join the ranks of high-income countries in 2022¹. And if there is no sudden slowdown in growth in the future, it is expected to overtake the US in around 2030 to become the world's largest economy in terms of nominal GDP. The Chinese market is experiencing the same trends as developed countries, such as the increasing sophistication of consumption and a shift toward decarbonization. The country is also seeing the remarkable progress and penetration of DX, and understandably some companies from developed countries have positioned China as a place to experiment with new digital services. The fact that China surpassed the US to become the world's largest recipient of foreign direct investment (FDI) in 2020 highlights the Chinese market's attractiveness as a destination for foreign capital (Figure 1).

Figure 1: FDI inflows to the US, China, and other world economies



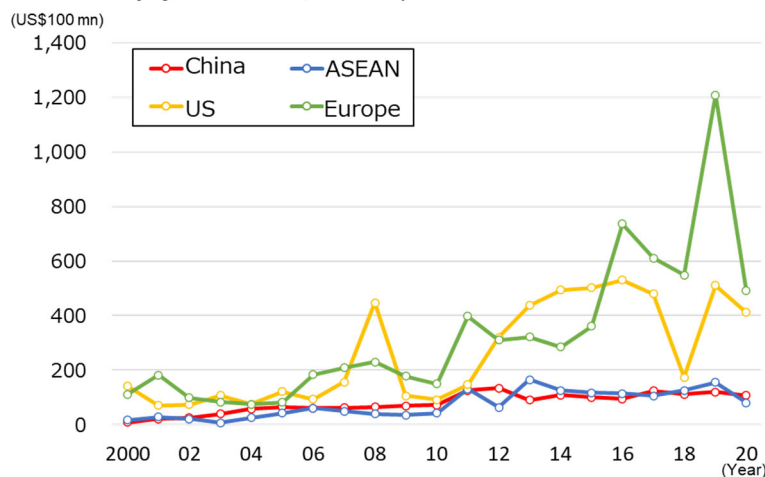
Source: Compiled by MGSSI based on UNCTAD data

¹ According to the National Bureau of Statistics of China, China's per-capita GNI (gross national income) in 2021 is US\$12,438, approaching the World Bank's criteria for high-income countries (US\$12,696 or higher). If China achieves the government's GDP growth target (around 5.5%) in 2022 and the yuan does not depreciate significantly, China is certain to become a high-income country.

On the political front, however, the gap between China and liberal democratic nations is widening as evidenced by the forceful social controls and abrupt market interventions demonstrated by China. The Xi Jinping administration is likely to remain in power for a long time while maintaining its hardline stance. As such, issues related to Taiwan and human rights, as well as competition and confrontation with the US over advanced technologies are expected to intensify further going forward. Officially, the Xi administration has been following China's reform and open-door policies, but at the same time, in order to protect national security, it is rapidly developing laws² to restrain and punish foreign governments and companies that attempt to infringe on China's "core interests,"³ and these laws will soon enter their operational phase.

Under these circumstances, Japanese companies are now facing the challenging situation where an expansion of opportunities for China business coincides with the increasing complexity of related risks. So far, Japan's FDI in China has been holding firm (Figure 2), but the numbers may be noticeably impacted going forward by the sharp increase in risk complexity over the past few years, which has been fueled by the US-China conflict, the COVID-19 pandemic, Chinese data protectionism, human rights and business issues, the international community's growing alarm over the possibility of a crisis situation involving Taiwan following Russia's invasion of Ukraine, and other factors. Taken as a whole, China risk is in the midst of a major transformational period. Based on this recognition, this report discusses the perspectives and attitudes necessary to make objective risk assessments that are not biased by prejudice or emotion.

Figure 2: Trend of Japan's foreign direct investment (by country/region, balance of payments basis, net flow)



Source: Compiled by MGSSI based on data of the Ministry of Finance, Bank of Japan (balance of payments statistics), and JETRO

DEFINING CHINA RISK

In this report, China risk is defined as "Chinese factors that could damage the earnings and reputation of Japanese companies".

Existing discussions on China risk can be broadly divided into those that refer to business risks and those that focus on the risks to Japan's security and the world order. The former include discussions on the "risks and uncertainties inherent in doing business in China" (Jiji Press) and "the various contradictions and imbalances existing in China ... and the risk of foreign companies conducting economic activities in China" (Nomura Securities Co., Ltd.). The latter, meanwhile, suggest "China ... could in many ways become a security risk for

² Examples include the Provisions on the Unreliable Entity List (effective September 2020), the Export Control Law (effective December 2020), the Rules on Counteracting Unjustified Extraterritorial Application of Foreign Legislation and Other Measures (effective January 2021), the Measures for the Security Review of Foreign Investment (effective January 2021), etc.

³ These refer to national interests that China attaches particular importance to. According to the White Paper on China's Peaceful Development announced by the Chinese government (September 6, 2011), the country's core interests include state sovereignty, national security, territorial integrity and national reunification, China's political system established by the Constitution and overall social stability, and the basic safeguards for ensuring sustainable economic and social development.

Japan in the 21st century” (Kawashima 2015)⁴ or ask the question: “How can the world confront [China’s] lack of regard to the way its behavior is perceived by the international community” (Ke Long, 2021)⁵.

The two discussions are not unrelated. There are many cases where risks related to business overlap with risks related to the international order, or where the latter strongly influences the former. Especially in recent years, as exemplified by the US-China confrontation and the Belt and Road Initiative⁶, where the two have become increasingly intertwined. In light of this, the following discussion will look into what is included in China risk, which is defined here as “threats to the earnings and reputation of Japanese companies,” and how they should be evaluated⁷.

CLASSIFYING CHINA RISK

In this report, China risk is broken down into three categories. First, as external risks to Japanese companies’ China business⁸ (macro risks), there are (1) China dynamics and (2) international community dynamics, then as internal risks to China business (micro risks) there are (3) managerial and operational risks. Based on this classification, and by referring to an earlier study⁹, the various risk factors have been organized as shown in Figure 3. The risks indicated in red are relatively new.

Figure 4 shows the author’s arrangement of risk factors based on whether they can be said to be unique to China and considered deeply Chinese in nature, or not. In this report, the risks included inside the red circle in the figure are referred to as “core China risks”¹⁰. In order to “view China risks with appropriate caution”, it is important to consider the generality (i.e., does it exist in other countries?) and specificity of the various risk factors that are collectively referred to as ‘China risk’. Further, in evaluating core China risks, an especially broad and deep understanding of and insight into China are required.

⁴ Shin Kawashima (ed.), China Risk (Book No. 5 in the series on Japan’s security), (January 28, 2015)

⁵ Ke Long, The Changing Face of China Risk: A Non-Hegemonic Strategy for Global Dominance, (May 8, 2021)

⁶ The initiative advocated by President Xi Jinping in 2013 aims to strengthen economic and cultural linkages between China and countries in the Asia-Pacific and Eurasia. It is a combination of the Silk Road Economic Belt (One Belt) and the 21st Century Maritime Silk Road (One Road). In fact, many of the projects are for security purposes, such as port investments in key locations along sea lanes and the development of energy transportation routes that do not pass through the Strait of Malacca.

⁷ In this report, risk is defined as “factors that have a negative impact” for the sake of argument. However, there are cases where one risk factor may damage the earnings of a particular company while boosting the earnings of another, or where a factor generally perceived as a risk actually has a positive effect on corporate activities (or includes positive aspects). In the former case, for example, while US producers were hit by China’s high tariffs on US lobsters amid the US-China trade friction, Canada’s lobster exports to China surged. With regard to the latter, if the hypothesis that “China maintains its economic and social order thanks to a strong one-party dictatorship” is correct, then foreign companies doing business in China are benefiting from factors that are generally perceived as risks. Also, the Belt and Road Initiative is a risk for Japanese companies if they view it as a plan that will intensify competition between Japanese and Chinese companies in the countries along the route or cause financial deterioration in the countries along the route, but it is an opportunity if they view it as a plan that will create opportunities for collaboration between Japanese and Chinese companies or improve the business environment in the countries along the route through infrastructure development using Chinese capital. While these perspectives are important, this report will not go into a discussion of the positive side of risk factors, due in part to space limitations.

⁸ The term “China business” in this report includes not only business in China, but also business conducted by Japanese companies with Chinese companies in Japan and third countries, as well as business that involves manufacturing products in third countries for the Chinese market. As Chinese companies continue to expand overseas and as the US and China continue to develop rules that allow “extraterritorial application of laws and regulations,” it is no longer appropriate to limit the scope of China risk to economic activities within China, and accordingly, the above definition was used in this report.

⁹ An earlier study, the China Risk Management Study Group Report (published in October 2013) by JETRO’s Overseas Research Department was used as a reference. The report classifies China risk into three major categories: country risk, operational risk, and security risk, then organizes those risks into 18 sub-categories, and further into 65 risk factors.

https://www.jetro.go.jp/ext_images/jfile/report/07001515/07001515.pdf

¹⁰ Depending on the view of each company, there may be cases where what are considered non-core China risks in this report are positioned as core China risks (and vice versa).

As stated above, core/non-core is not a classification based on the degree of importance. For many Japanese companies, non-core China risks that have been around for a long time, such as cost management and credit control, may be more important than core China risks, such as the US-China conflict and human rights issues, in the sense that the companies are required to deal with them on a daily basis. Precisely because of such situations, however, for non-core risks, each company or law/accounting firm has accumulated the experience and know-how to deal with the issues.

On the other hand, there is less accumulation of knowledge about both the core China risks and non-core China risks that have emerged in recent years, and these are more important in the “black swan” or “gray rhino” sense, that is to say, in the sense that there may seem to be no need to take action now, but the impact would be enormous if a risk scenario became a reality. Because of the media attention given to these risks, as well as the fact that the associated dangers are often communicated with exaggeration, Japanese companies and their stakeholders (investors and suppliers) tend to harbor vague anxieties.

EVALUATING CHINA RISK

In the actual evaluation process, each company should first identify risk factors that are “highly significant” before proceeding to further examination. Even core China risks and new risks could be deemed “not so important” by some companies, but at least those that are of considerable interest to stakeholders, such as the US-China conflict, should be included in the items to be evaluated.

In this report, as risk assessment perspectives that are needed in order to “view China with appropriate caution” the following five perspectives are considered: (1) the likelihood of the risk scenario occurring (probability), (2) whether or not the scenario can be prevented through a company’s efforts (preventability), (3) the scale of loss if it occurs (size of loss), (4) whether the damage can be mitigated or recovered (damage control), and (5) how long the impact will last (persistence). The results of the examination of each risk factor are then weighed against the return expected from the business in question, and an overall assessment is made.

The following case study is based on a hypothetical China-based business (entry into the Chinese market by Japanese sports apparel brand = Company A). Figure 5 shows the risk assessment sheet. As an example, this section examines risk scenarios related to “human rights issues” (the text in red of Figure 5). Company A is accused by name by a European-based NGO of using cotton and sewn products from the Xinjiang Uyghur Autonomous Region produced by forced labor and therefore engaging in “crimes against humanity,” and the claim is reported in the Japanese and foreign media.

The probability of this scenario (perspective 1) occurring was set at “low to medium”. Company A plans to procure all products to be sold in China, including raw materials, from within China, and it is difficult to completely eliminate Xinjiang products¹¹, so there is a good chance that the company will receive some sort of inquiry from the NGO. However, if Company A can clearly explain at that time that it has been making efforts to eliminate forced labor from its supply chain and that the existence of forced labor has not been identified, the scenario could be prevented from occurring. Nevertheless, it is not easy to confirm the existence or non-existence of such labor, and there may be cases where NGOs are not convinced by the explanations. For this reason, the preventability (perspective 2) was set as “possible, although it will involve a certain degree of difficulty”. As concrete measures, it would be effective for Company A to include a CSR clause (suspension of transactions if forced labor is found in the production process) in its contracts with Chinese suppliers, and to inspect production sites as appropriate and compile reports.

¹¹ Cotton produced in the Xinjiang region accounts for nearly 90% of the domestic market. Also, with the Chinese government refusing to acknowledge the existence of forced labor, even if foreign capital companies were to demand that Chinese suppliers completely eliminate Xinjiang cotton, it is unlikely that the suppliers would agree to do so.

Figure 5: Risk assessment sheet for a hypothetical business in China (entry into the Chinese market by Japanese sports apparel brand - Company A)

Business overview		Business plan (expected returns)					
<ul style="list-style-type: none"> Sales of clothing, shoes, bags, etc. in China by Japanese sports apparel brand (Company A) All products to be procured in China, from raw materials to fabrics to sewn items Partnering with China's leading tech company B to provide health management support services for customers using wearable devices Developing both physical stores and e-commerce business. Also giving attention to CRM using proprietary app Products also destined for export to Japan, the US, Europe, etc. 		<ul style="list-style-type: none"> To establish a wholly-owned local subsidiary Capital fund: US\$XX million No. of Board of Directors members: XX Planned workforce: XX in 2022, XX in 2023 Store rollout plan: XX in FYE March 2023, XX in FYE March 2024 Sales target: XXX yuan in FYE March 2023, XXX yuan in FYE March 2024 EBITDA forecast: Net income forecast: If synergies from the business alliance with Company B are realized, promote cooperation in Japan and third countries 					
Risk factor	Main risk scenarios	(1) Probability (current and future)	(2) Preventability	(3) Size of loss	(4) Damage control	(5) Persistence	
Non-core China risks	Competing brands gain power	Sales slump due to insufficient differentiation of products from overseas and local competing brands	○○○	○○○	○○○	○○○	○○○
	Infringement of intellectual property rights	Proliferation of counterfeit and copycat products leads to sluggish sales of legitimate products	○○○	○○○	○○○	○○○	○○○
	○○○	○○○	○○○	○○○	○○○	○○○	○○○
Core China risks	US-China conflict	(Scenario 1) The US strictly enforces the Uyghur Forced Labor Prevention Act (effective June 2022), and all products produced in China by Company A cannot be exported to the US.	(Medium) After the law goes into effect, it is expected to be strictly enforced for the time being, but if Company A can prove (or at least show an effort to prove) that the use of forced labor could not be identified in the production process, Company A is likely to be exempted.	(Not preventable) The enforcement of the law itself has already been decided. If no action is taken, exports will not be allowed. Advance preparation is necessary, such as researching the conditions for obtaining exemptions.	(None to small) If an exemption is granted, there will be no loss. If not, the product lineup will be limited, but for the time being, Company A will respond by exporting products manufactured at production bases outside of China without the use of Xinjiang cotton.	(Possible, although a certain amount of costs will be incurred) In order to obtain exemptions, efforts should be made to eliminate or prevent forced labor by interviewing suppliers about the conditions at their production sites, conducting inspections, etc. Also, establish a system to enable production of products for the US market at sites outside of China.	(Short to long term) Depends on the status of the operation of US laws and regulations, but if exemptions are obtained, the impact will be short-lived.
		(Scenario 2) The U.S. Department of Defense designates Company A's partner, Chinese company B, as a "Communist Chinese military company."	(Medium) As Company B's social networking, music distribution, and other services have many users in the US, it could become subject to US government sanctions.	(Not preventable) There is no way to prevent the US government's decision. Company A could stipulate in advance an option to terminate the contract with Company B, but that is not necessary because designation as a "military company" is not the same as financial sanctions.	(None to small) The designation as a "military company" will not immediately affect the business alliance between Company A and Company B. However, there is a certain reputational risk.	(Possible) Carefully explain to stakeholders that this business alliance has nothing to do with the military (does not involve the provision of sensitive technologies and supplies from Company A to Company B, etc.).	(Short to long term) Company B is likely to file a lawsuit in the US to seek a repeal of the designation, and in light of past cases, there is a good chance that the repeal will be granted.
	Human rights issues	An international NGO accuses Company A of "using Xinjiang products made with forced labor and therefore engaging in 'crimes against humanity,'" and the news is reported in Japan and the West.	(Low to medium) With the enforcement of the Uyghur Forced Labor Prevention Act in the US, attention to this issue will once again increase worldwide. Although human rights NGOs are expected to become more active, it is unlikely that Company A will be abruptly prosecuted without being given an opportunity to explain.	(Possible, although it will involve a certain degree of difficulty) It is possible to avoid prosecution if a company has a CSR clause in its contracts with its suppliers, if the company has implemented a solid program to prevent forced labor by inspecting production sites as needed, and if the company can explain as clearly as possible that no cases of forced labor have been identified.	(Small to medium) Considering similar cases in the past, sales will not plummet because of NGO accusations or media coverage. However, if the accusation is handled incorrectly, damage to the company's reputation will increase and sales may be affected.	(Possible, but attention needed) Carefully explain to stakeholders that Company A has made efforts to prevent the use of forced labor and that no cases of forced labor have been identified. If the exclusion of Xinjiang products is carried out in an ambiguous situation, Company A is likely to face a boycott of its products in China.	(Will be prolonged if damage control measures are not implemented correctly) If no action is taken to prevent the use of forced labor, the impact in the Japanese, US, and European markets will grow over time. Meanwhile, if Company A faces a boycott in China, the impact will last for several more years unless it makes a full apology and resumes procurement unconditionally.
	China strengthens data and personal information protection	Company A is fined for violating the Personal Information Protection Law due to deficiencies in the management of the personal information of its customers.	(Low) Company A does not handle sensitive personal information ("Customer biometric information acquired through wearable devices is held by Company B). As for data for CRM analysis, information related to only a few thousand customers is retained for the time being, so strict management based on the Personal Information Protection Law is not necessary.	(Preventable) Work with law firms to manage personal information in accordance with laws and regulations.	(Small) No sensitive personal information is handled, and only a small volume of personal information is retained, so fines are expected to be minor in the event of a violation of any laws and regulations.	(Possible) Promptly change the management arrangement of personal information according to the guidance of the authorities.	(Short term) By promptly following the guidance of the authorities, it is possible to put the matter to rest in a short period of time.
	Japan-China friction	Japanese and Chinese fighter jets accidentally collide near the Senkaku Islands, resulting in fatalities on both sides. Protestors in various parts of China stage massive anti-Japanese riots and boycotts of Japanese goods, including Company A's products.	(Low) While the possibility of accidental clashes cannot be foreseen, the Chinese government is emphasizing economic stability and social order, and large-scale anti-Japanese riots and boycotts like those in 2012 are unlikely to occur.	(Not preventable, but there are things that can be done pre-emptively to control damage) While there is no way for a company to prevent accidental clashes between militaries or deterioration of political relations, it is important to build good relationships with Chinese stakeholders during normal times to be prepared for emergencies.	(Large) Company A is widely recognized as a Japanese brand in China and its logo is prominent, making it a likely target for boycotts; looking at the decline in sales of Japanese cars during the anti-Japanese riots in 2012, sales could decrease by as much as 50%.	(Some measures can be taken) Convey the strong message that Company A has focused and will continue to focus on its relationship with its stakeholders in China, especially consumers and society.	(Medium term) Considering the situation with Japanese car sales during the anti-Japanese riots of 2012 (specifically, how long it took for sales to recover), the impact is expected to continue for around a year.
○○○	○○○	○○○	○○○	○○○	○○○	○○○	
Overall assessment							
<ul style="list-style-type: none"> China's sporting goods market is expected to continue to grow at a high rate over the long term, and if the company can gain a competitive edge in the market, it can expect significant returns. Probabilities and losses for each risk scenario are generally within acceptable limits. It is also possible to implement effective risk management before and after the fact, although at a certain cost. The business alliance with Company B is expected to yield significant benefits, including differentiation from competitors in the Chinese market and the possibility of horizontal expansion into Japan in the future. Company B may be subject to some form of US sanction, but it is unlikely that the sanctions will be strong enough to make it difficult to continue this business alliance. Although there is a low probability that the risk scenario of Japan-China friction will manifest, if such friction were to flare up, significant losses can be expected. To reduce damage as much as possible, it is important to build good relationships with Chinese stakeholders (consumers, employees, business partners, government, society, etc.) during normal times when relations are not contentious. 							

Source: Compiled by MGSSI

The loss (perspective 3) was set at “small to medium”. If the NGO names the company in its accusation, a loss of reputation in the Japanese, European, and North American markets is inevitable, but considering similar cases in the past, it is unlikely that this alone would cause a significant drop in sales¹². Even so, if the company does not respond to the accusation in good faith, the damage will become compounded. Damage control (perspective 4) is deemed possible, but caution is required. What Company A should do is to clearly demonstrate to its stakeholders its day-to-day efforts to eliminate forced labor from its supply chain and the results of those efforts. On the other hand, if the company simply follows the NGO's recommendations and stops procuring Xinjiang products even though the existence of forced labor is *not* actually confirmed, it is likely to face a boycott in the Chinese market. Persistency of impact (perspective 5) will be prolonged if damage control measures are handled wrongly. If the NGO deems Company A's response inadequate and files a lawsuit in its home country, or if Company A stops procuring Xinjiang products without a clear reason and, as a consequence, its products are boycotted in China, the impact will last for a longer time¹³.

Although detailed explanations of the other risk factors are omitted here, they were also reviewed in the same manner, and in the end, an overall assessment was made.

ELIMINATING BIAS

In assessing China risk, especially core China risks, bias should be eliminated to the greatest extent possible. To do so, it is first necessary to realize that Japan sees China through unique glasses, so to speak, compared with the global perspective, and that the voices that talk about China tend to swing to both extremes.¹⁴ Based on this recognition, when doing business with China, it is advisable to consult a wide range of sources in Japan, China, and third countries, as well as to listen to business operators, experts, and stakeholders inside and outside the company, to gain as much multifaceted knowledge as possible about Chinese politics, the economy, society, culture, history (Figure 6)¹⁵, external relations, past business risk cases, latest policies and laws, and the approaches of other Japanese and non-Japanese foreign companies.

¹² In April 2021, a French NGO and others accused four apparel companies, including UNIQLO's French subsidiary, of using materials produced by forced labor in the Xinjiang Uyghur Autonomous Region and covering up “crimes against humanity.” Although the case was widely reported in Japan and other countries, UNIQLO's sales remained strong in Europe and Japan.

¹³ This risk scenario uses the case of Swedish apparel giant H&M as a reference. In September 2020, H&M announced the suspension of business with a company in the Xinjiang Uyghur Autonomous Region in connection with the forced labor issue. This angered the authorities, and Chinese e-commerce sites have refused to sell H&M's products since March 2021. The situation remains as such today. In the March-May 2021 period, when the boycott campaign was gaining momentum, the company's sales in China fell by about ¥7 billion yen (-30%) from the same period the previous year. This case illustrates the difficulty of dealing with the incongruity between a company's corporate philosophy and China's “core interests”.

¹⁴ Japan has deep geographical, cultural, and economic ties with China, and there are many experts on Chinese affairs, both pro- and anti-China. While many businesspeople believe that business and sentiment toward a country are separate, the general public's feelings toward China are among the most negative in the world, which creates a unique situation. This is what gives rise to Japan's unique perception regarding China and the broad spectrum of opinions on China. The results of a public opinion poll on China's image conducted by The Pew Research Center, a US research institute, which was released in June 2021, found that 88% of Japanese respondents indicated “unfavorable views of China,” the highest percentage of any country. The poll covered approximately 19,000 people in 17 countries and regions, and was conducted from February to May of the same year. Japan was followed by Sweden (80%), Australia (78%), South Korea (77%), and the US (76%). While negative views have increased sharply in many countries in the post-2020 period due to the pandemic and the worsening conflict between the US and China, Japanese public sentiment has been almost consistently negative for the past decade, with more than 80% of respondents holding negative views.

¹⁵ With regard to China's history, dates that Japanese companies should keep in mind are organized as shown in Figure 6 for reference. It is common knowledge among Japanese companies in China that it is imprudent to hold positive events (new product launches, factory groundbreaking ceremonies, etc.) on dates related to the Sino-Japanese war, in particular, but risk cases have been seen even recently. In June 2021, Sony's Chinese subsidiary was criticized by consumers when it announced that it would launch a new product on July 7 (the date of the Marco Polo Bridge Incident), and was fined by the authorities in October of the same year for “undermining national dignity and interests”.

Figure 6: Sensitive historical dates worth keeping in mind for China business (red text indicates events related to Japan)

Date	Event	Details
May 4	May Fourth Movement (1919)	An anti-Japanese, anti-imperialist movement led by students in China (Republic of China) who were dissatisfied with the details of the World War I Peace Treaty (Treaty of Versailles). The movement originated in Beijing on May 4, 1919, and spread nationwide. The contentious issues included the treaty's inclusion of some of the 21 demands made by Japan to China (such as the transfer of German colonial interests in Shandong Province to Japan).
May 9	Date of acceptance of Japan's "Twenty-One Demands" (1915)	Demands made by Japan to China on January 18, 1915, during World War I. It called for the expansion of Japan's concessions in Shandong Province, Manchuria, and Inner Mongolia, as well as an extension of Japan's leasehold term. May 9 was the day that the Yuan Shikai government approved Japan's "ultimatum" (a total of 13 demands, reduced by 8 demands from the original proposal of 21 demands).
May 12	Great Sichuan Earthquake (aka Wenchuan Earthquake) (2008)	An inland earthquake of magnitude 8.0 on the Richter scale struck on May 12, 2008, affecting over 40 million people and killing over 80,000 (including those still missing) according to official statistics as of July of the same year. The Chinese government designated May 19-21, 2008 as national days of mourning, banning the operation of all entertainment venues nationwide and flying flags at half-mast in Tiananmen Square.
June 4	Tiananmen Square Massacre (1989)	Also known as the June Fourth Incident. The People's Liberation Army used force against citizens who had gathered in Tiananmen Square in Beijing to demand political reforms, resulting in numerous casualties. Any reference to the incident is banned in Chinese media and social networking sites, and every year as this day approaches, advisories and crackdowns on human rights activists are intensified.
July 1	Anniversary of the founding of the Communist Party of China (1921)	The date when the First Party Congress (the First National Congress of the Communist Party of China) was held inside the French Concession in Shanghai in 1921. The actual date is July 23, but July 1 has been selected as the anniversary date as a matter of convenience and it has become customary to observe the anniversary on that date.
July 7	Marco Polo Bridge Incident (aka Lugou Bridge Incident) (1937)	Also known as the Double Seven Incident. The incident is considered to have started the Second Sino-Japanese War (1937-1945) (The Chinese Communist Party now takes the position that the 1931 Mukden or Manchurian Incident was the starting point of the Sino-Japanese War). Armed clashes erupted between Japanese and Chinese troops (Nationalist Revolutionary Army) during military exercises in the suburbs of Beijing at the Marco Polo Bridge (Lugou Bridge, current Fengtai District, Beijing). A ceasefire was soon signed, but clashes between the two armies broke out in various parts of Beijing, and the Tungchow mutiny (sometimes referred to as the Tongzhou Incident, July 29, 1937) worsened Japanese public opinion toward China, leading to the Battle of Shanghai and an all-out war.
August 1	Anniversary of the founding of the People's Liberation Army (1927)	Army Day (PLA Day). Date of the Nanchang Uprising, the first armed struggle under the leadership of the Chinese Communist Party. It was also the starting point of the first half of the Chinese Civil War, which lasted until the formation of the Second United Front in 1937.
August 13	Battle of Shanghai (referred to as the Second Battle of Shanghai by the Japanese) (1937)	The Chinese call it the Battle of Songhu. In response to the Chinese offensive, Japanese troops were dispatched in force from the mainland and Taiwan, and the Sino-Japanese war front expanded.
September 3	Anniversary of the victory of the Chinese People's War of Resistance Against Japanese Aggression (1945)	The anniversary is celebrated on September 3rd, a day after Japan signed the Instrument of Surrender with the Allied Powers on September 2, 1945. In 2014, the Xi Jinping administration passed legislation designating the day as Victory Day in the Chinese People's War of Resistance against Japanese Aggression, and commemorative ceremonies are held annually.
September 18	Mukden or Manchurian Incident (1931)	An incident in which the tracks of the South Manchuria Railway, operated by a Japanese state-sponsored company, were blown up near Liutiao Lake in the northern part of Mukden (now Shenyang). Although it was a false flag attack staged by the Kwantung Army (an army group of the Imperial Japanese Army), the army announced that it was the work of Chinese troops and used it as a pretext for military deployment in and the occupation of Manchuria (the Manchurian Incident).
December 13	National Day of Remembrance (Nanjing Massacre) (1937)	In 2014, the Xi Jinping administration adopted a decision to designate this day as the National Day of Remembrance for the victims of the Nanjing Massacre.

Source: Compiled by MGSSI based on various materials

Meanwhile, when actually responding to risk, respecting only the opinions of Chinese stakeholders or Chinese laws and regulations may conflict with those of Japan, the US, and Taiwan. Of course, companies should act carefully to avoid creating conflicts themselves, but despite taking such precautions, it is possible that they get entangled unwittingly. Even in such cases, if the company thoroughly examines the risks in advance without bias, and if the values and principles –what to protect with the highest priority as a company– are firmly and clearly maintained, it should be able to take the correct measures from a broad and long-term perspective without panicking.

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