

Risks and Precautions of Chinese Enterprises' Transnational Investment Under "the Belt and Road" Initiative

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Abstract: With the promotion of the "the Belt and Road" initiative, Chinese enterprises are seizing the rare development opportunity to accelerate the pace of "going global" by means of transnational investment. This paper will analyze the problems and risks in infrastructure, politics, religious culture, law, finance, and other aspects of the country along the "the Belt and Road", and according to these problems and risks given the corresponding countermeasures, we will help Chinese enterprises cope with risks and challenges along the routes.

1. Introduction

Under this concept, the "the Belt and Road" has developed rapidly. After several years of development and construction, by the end of April 2022, China has signed more than 200 cooperation documents with 149 countries and 32 international organizations. In addition, the rapid development of transportation infrastructure such as Mombasa, Nairobi railway, Gwadar Port, new Eurasian Continental Bridge and China, Europe railway has greatly shortened the spatial distance between China and countries along the "the Belt and Road", shortened the time distance between countries along the belt and road, and made country along the belt and road more closely connected.

2. Current Situation of Transnational Investment of Chinese Enterprises under the "the Belt and Road" Initiative

2.1. The Investment Scale of Chinese Enterprises has Expanded Year by Year

Under the initiative of the "the Belt and Road", Chinese enterprises have invested in the construction of the "the Belt and Road" strategy. The scale of enterprise investment has increased year by year, and the field of investment has been expanding. It covers all countries along the belt and road and has made remarkable achievements. While gaining large benefits, enterprises have also greatly promoted the development and construction of countries along the "the Belt and Road", tied the interests of China and countries along the belt and road, and virtually expanded China's influence in the world.

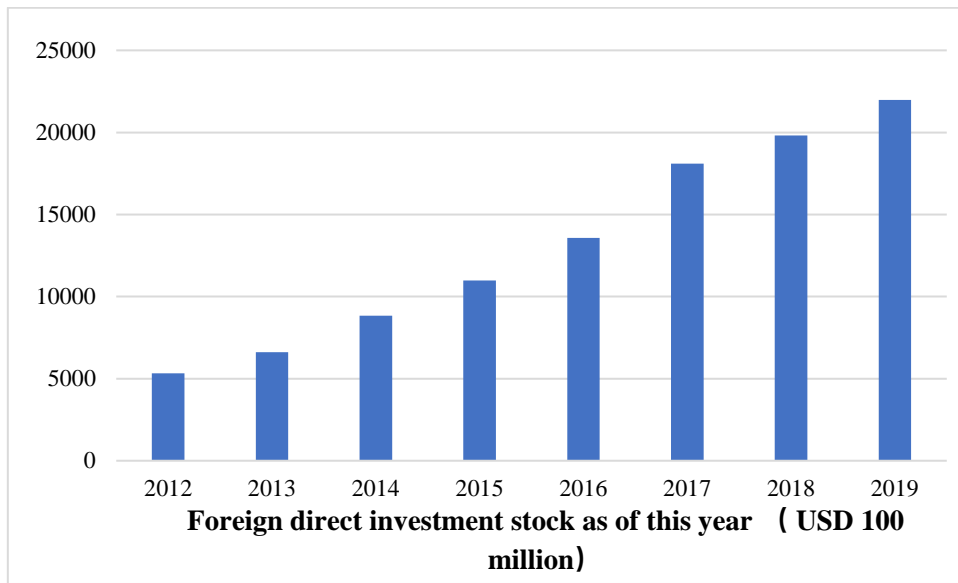


Figure 1: Stock of Chinese enterprises' OFDI in countries along the "the Belt and Road" from 2012 to 2019¹

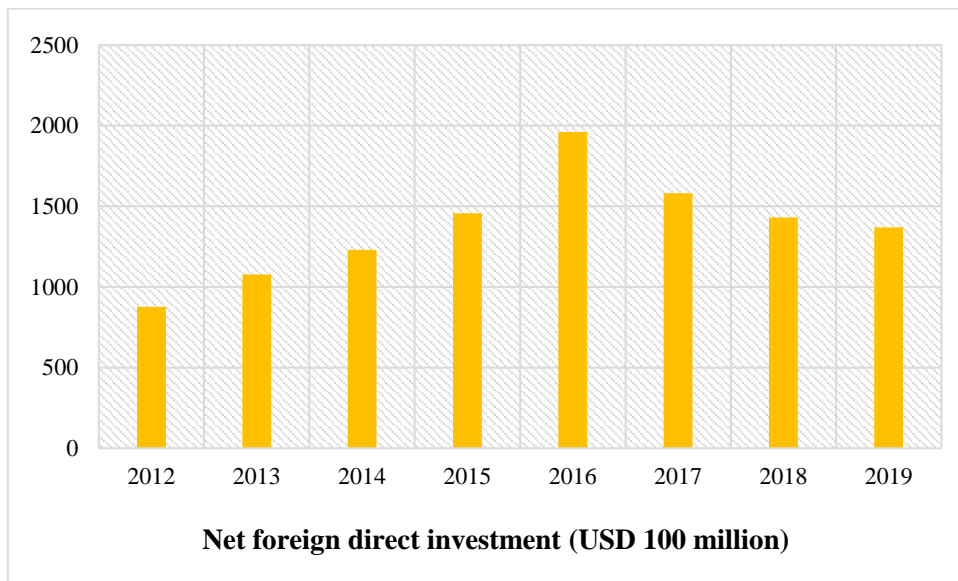


Figure 2: Net direct investment of Chinese enterprises in countries along the "the Belt and Road" from 2012 to 2019²

From Figure 1, we can see that Chinese enterprises have responded to the call with practical actions, seized the beachhead with the help of the east wind of the "the Belt and Road" and increased the number of "the Belt and Road" projects. In just a few years, the foreign investment stock has increased from \$531.94 billion in 2012 to \$2198.881 billion in 2019, more than tripled. Moreover, the growth rate of Chinese enterprises' foreign direct investment stock has remained stable, this shows that Chinese enterprises are enthusiastic about the "the Belt and Road" initiative. As can be seen from Figure 2, the net foreign investment of Chinese enterprises decreased in 2016-2019, from the peak of US \$1961.49 billion in 2016 to US \$136.908 billion in 2019.

¹ Data source: China's belt and road network.

² Data source: China's belt and road network.

Combined with the information reflected in Figure 1, it reflects that the enterprises of countries along the "the Belt and Road" have gradually recognized the "the Belt and Road" strategy began to actively participate in the construction of the "the Belt and Road", and increased their direct investment in China, and the growth rate is faster than that of Chinese enterprises, which is the reason for the decline of China's net foreign direct investment. It can be seen from this that China's "the Belt and Road" strategy is gaining the trust and support of enterprises from countries along the route, which has increased the confidence for China to continue to promote the "the Belt and Road" project.

2.2. The Investment of Chinese Enterprises is Concentrated in Different Regions

The total investment of Chinese enterprises along the "the Belt and Road" is very stable, showing a slight downward trend year by year, and the investment countries are mainly neighboring countries in Southeast Asia. This is mainly because Southeast Asian countries have regional advantages and are close to China, which can save a lot of transportation costs and time costs. Moreover, Southeast Asian countries are within the Chinese cultural circle, most of the cultures of these countries are deeply influenced by Chinese culture, which is similar to Chinese culture. Chinese enterprises can quickly establish contacts and sales channels, here, quickly adapt, and gain a firm foothold; in addition, Southeast Asian countries are all developing countries with relatively rapid development and poverty. The labor force is low, the domestic market needs to be developed, the competitive pressure is small, and enterprises are easy to survive. For these reasons, Southeast Asia has become a hot spot for Chinese enterprises' transnational investment.

2.3. Chinese Enterprises Have a Wide Range of Investment Fields

After several years of development, Chinese enterprises have gradually gained a firm foothold and begun to take shape along the "the Belt and Road". With the in-depth cultivation of enterprises, the investment field is also expanding, beginning to involve all aspects of people's lives in countries along the belt and road, as shown in Table 1.

Table 1: Industrial distribution of China's total direct investment in countries along the "the Belt and Road" from 2005 to 2016.³

Industry	Investment amount (USD million)
Energy	118390
Metal	21430
Traffic	15560
Real estate	12300
Science and technology	9140
Agriculture	7440
Finance	5440
Entertainment	5400
Chemical industry	2220

From Table 1, we can see that the main investment fields of Chinese enterprises in countries along the "the Belt and Road" are energy, metals, transportation, real estate, etc. We can say that Chinese enterprises have been deeply intertwined with the countries along the "the Belt and Road". You have me and I have you. With the promotion of the "the Belt and Road" strategy, Chinese

³Data source: Guo Jiang, Ma Caichen. "Research on the construction of the" the Belt and Road "from the perspective of financial and credit services", School of economics, Nankai University, publication date: May 30, 2019.

enterprises will be able to occupy a place in a broader field of countries along the route.

3. Risk Analysis of Chinese Enterprises' Transnational Investment

Although Chinese enterprises' transnational investment has achieved great development and success under the "the Belt and Road" initiative, there are many risks and problems hidden in this rapid development. If these hidden dangers are not found and solved in time, it will inevitably hinder the development of the "the Belt and Road" initiative and the transnational investment of Chinese enterprises.

3.1. Infrastructure Risk

The "the Belt and Road" passes through countries in South Asia, Southeast Asia and Central Asia, such as India, Pakistan, Myanmar, Vietnam and Afghanistan, which are developing countries with relatively backward development. The infrastructure is quite backward, which can not support the normal business activities of enterprises, here, greatly hindering economic exchange and integration between regions, resulting in difficulties in material transportation and high transportation costs, It will greatly increase the extra cost of transnational investment enterprises and weaken the advantages and competitiveness of enterprises. In addition to the backwardness of road infrastructure, the lack of power is even more fatal to the operation and development of enterprises. At present, these countries along the line have a certain degree of power shortage. With the economic development, the increase of enterprises' investment here will aggravate the degree of power shortage, which will affect the operation and development of enterprises that make transnational investment in these countries and damage the interests of investment enterprises, this has greatly hindered the construction of the "the Belt and Road".

3.2. Religious and Cultural Risk

The countries along the "the Belt and Road" are numerous and densely populated. There will be differences in religion, culture, and customs between countries, even within a country. Even there are many contradictions and irreconcilable among different religions, cultures, and customs, which will lead to violent conflicts and national unrest. As a variable, religious culture has seriously affected the development and stability of the region, in particular, the laws of the Middle East countries have obvious religious color, and there are great difficulties in coordinating the relationship between domestic law and international law. Therefore, the risk of religious culture has become a risk and hidden danger that Chinese enterprises cannot ignore when making transnational investment ^[1].

3.3. Political Risk

The religious and cultural risks along the "the Belt and Road" tend to manipulate believers through their own religious influence, thus manipulating national politics and undermining the national political balance. In addition to religious factors, there are also government officials' corruption, the struggle between different political parties, the frequent replacement of the ruling party, and other factors. These factors cause a series of political risks and lead to political instability. When the national political situation is unstable, it is difficult for the national government to form public trust and promote the stable implementation of national policies, these unstable factors are undoubtedly a great obstacle to the "the Belt and Road" strategy, which needs long-term and stable promotion.

Europe and the United States are bound to infiltrate and intervene in countries and regions along the "the Belt and Road", adding some uncertainty to the geopolitical environment China faces, and it is bound to be more difficult for Chinese enterprises to make transnational investment [2]. In addition, the "the Belt and Road" initiative has been seriously stigmatized by politics. The European and American media spread rumors that China's "the Belt and Road" is colonialism in the new century through their language hegemony, comparing the "the Belt and Road" to a Chinese version of the "Marshall Plan" [3]. The political stigmatization of the "the Belt and Road" initiative is bound to hinder the transnational investment of Chinese enterprises.

3.4. Policy and Legal Risk

Most of the countries along the "the Belt and Road" are developing countries. Their own legal systems are not perfect, and there are differences in law between countries. Enterprises' cross-border investment here is easy to fall into some legal loopholes, resulting in enterprises having nowhere to defend themselves when they encounter legal troubles, being dumb and suffering unnecessary economic losses. In addition to the imperfect laws of the countries along the line, the investment direction of Chinese enterprises in the countries along the line is also easy to cause dissatisfaction of the local government, which may restrict and sanction the investment of Chinese enterprises in the name of violating the law. The investment of Chinese enterprises along the line is mainly infrastructure construction and energy resources development. Most of these investment projects are pillar industries of a country, which are related to the survival and safety of the country. Moreover, high energy consumption and large-scale resource exploitation will damage the environment of the investment destination country and cause environmental pollution of the host country. The host country is bound to frequently use high standards of safety and environmental review to review the investment of Chinese enterprises, affect the normal operation of enterprises, and restrict the investment of Chinese enterprises [4].

3.5. Financial Market Risk

Most of the financial markets in the countries along the "the Belt and Road" started late, developed slowly, and there are more or less institutional loopholes. Moreover, most of the countries along the belt and road have backward economic development and do not have sufficient US dollar reserves. Even if they successfully warn the possible crisis in the financial market, they may not be able to put out the flames of the financial crisis. In addition, there are differences in politics, economy, and culture among countries along the "the Belt and Road", which makes financial investment vulnerable to the influence of national policies and other factors. Investment income is not effectively guaranteed, and even some countries take protective measures for their interests. At the same time, the financial markets of these countries along the belt and road are lack of corresponding early warning and supervision mechanisms, and the financial markets are chaotic, which is bound to affect the enthusiasm of financial investment [5].

3.6. Talent Market Risk

There are many countries along the "the Belt and Road" and their cultures are diverse. The types of languages alone are extremely diverse. If enterprises want to make transnational investments along the "the Belt and Road" and achieve success and a firm foothold, they must have professional talents who fully understand and understand the culture, language, and customs of the countries along the "belt and road". At the same time, there should also be talents who have a certain understanding of the relevant laws of the countries along the line and know how to flexibly use the

local laws and regulations for business activities. At present, such high-standard talents are scarce. There are many loopholes in relevant talents. The competition for talent among enterprises is very fierce. It can be said that talents are productivity and talents are the key to the success of transnational investment. In the foreseeable future, the demand for talent will be growing. The lack of talent market will exist for a long time.

4. Risk Prevention of Chinese Enterprises' Transnational Investment

To sum up, this paper roughly analyzes the risks and problems that Chinese enterprises may encounter in their transnational investment in countries along the "the Belt and Road". Next, this paper will put forward the corresponding preventive measures and suggestions accordingly.

4.1. Increase Investment in Infrastructure Construction

In view of the poor infrastructure of countries along the the Belt and Road, countries along the the Belt and Road should first make greater efforts to improve their own infrastructure, broaden roads, build reservoirs, improve power transmission, set up communication base stations, etc. Only by realizing the basic normal business conditions of enterprises such as smooth roads, normal water and power supply, and normal communication services, can they attract investment from enterprises and ensure the smoothness of the belt and road. The establishment of the Asian Infrastructure Investment Bank has greatly eased the financial pressure of large-scale infrastructure construction in countries along the belt and roads, and created urgent needs and worries for countries along the belt and roads.

4.2. Respect the Religious Culture of all Countries

The religious culture in the areas along the "the Belt and Road" is extremely complex, and the relationship between various religions is intertwined. No matter how powerful a country or enterprise is, any religion involved in these areas will be like being caught in a whirlpool, and will not be able to retreat, resulting in heavy losses to the interests of the country and enterprises. Therefore, when making cross-border investments in countries along the "the Belt and Road", Chinese enterprises must first fully understand the religious customs and cultures in the countries of investment destination. Through understanding the domestic religious culture of the host country, they should maintain a balance between various religions. They should not only respect the local religious culture and customs, but also pay attention to keeping a distance from local religions. They must not favor a certain religious sect, otherwise, it is easy to cause dissatisfaction of other local religious sects, or even lead to disaster and bring hidden dangers to the normal operation and safety of enterprises in the local area.

4.3. Establish and Improve the Political Response Mechanism of the "the Belt and Road"

The political problems of countries along the "the Belt and Road" are very complex. Enterprise alone cannot solve the possible political problems along the "the Belt and Road". The Chinese government must cooperate with transnational investment enterprises to establish a complete, scientific and rapid political response mechanism. China should collect relevant data on the political problems encountered by domestic enterprises in transnational investment in countries along the "the Belt and Road" in recent years, adopt a set of measurement methods and evaluation systems that are consistent with the actual situation of Chinese enterprises' overseas transnational investment, digitize the political risks of countries along the "the Belt and Road", and timely make

risk early warning according to the corresponding political risk coefficient [1].

4.4. Formulate Strict Laws on Foreign Investment and Encourage Enterprises to Invest in Various Fields

In the face of the difficulties and special treatment of Chinese enterprises by countries along the "the Belt and Road", China should formulate stricter laws on foreign investment compared with countries along the "the Belt and Road", formulate higher standards of enterprise requirements, and ensure that Chinese enterprises investing abroad are excellent enterprises screened by high standards. At the same time, China should encourage enterprises to make transnational investment in non pillar industries and less polluting fields in countries along the "the Belt and Road", optimize the investment structure, achieve innovation in the investment field and avoid risks.

4.5. Strengthen Financial Cooperation and Improve the Supervision Mechanism of the Financial Market

In the era of globalization, countries are increasingly linked. Countries along the "the Belt and Road" should strengthen financial cooperation, so that their financial markets can be connected to face the problems of the financial market, share risks, and enhance their ability to resist the financial crisis. In addition, countries along the "the Belt and Road" should jointly establish independent supervision institutions, which are specially responsible for reviewing investment projects in the financial markets of countries along the belt and road and providing corresponding investment suggestions to investors, to protect the interests of investors and maintain the orderly operation of financial markets.

4.6. Strengthen Education and Training and Cultivate High-Quality Talents

The "the Belt and Road" project is large and complex. If enterprises want to survive and develop along the "the Belt and Road", in the final analysis, they still need personnel with high professional quality in international relations, law, regulation, logistics, foreign exchange, taxation, etc. along the line. Employees with high professional quality can greatly reduce the errors and risks in the operation of enterprises and reduce the loss of interest of enterprises. Therefore, enterprises should cooperate with the government to establish an education and training mechanism for cultivating high-quality talents, which is specifically responsible for cultivating professionals related to the "the Belt and Road". Through these educational institutions, enterprises can provide a large number of professional high-quality talents to enterprises in a short time, alleviate the talent shortage, and lay a talent foundation for the orderly development of the "the Belt and Road".

5. Conclusions

With the continuous promotion of the "the Belt and Road" initiative, the spatial and emotional distance between countries along the line will be closer and closer. The "the Belt and Road" initiative has become the glue between countries along the line and will integrate countries along the line, thus promoting the construction of a community of shared future for mankind. Chinese enterprises should seize the historical opportunity to avoid the risks and problems of religious culture, policies and laws, financial markets, etc. along the "the Belt and Road", actively participate in the construction of the "the Belt and Road" initiative, and increase investment and operations in countries along the route.

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