

# Research on Chinese Enterprises' Overseas Investment Risk Based on PEST Analysis

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**Keywords:** investment risk; risk prevention; PEST analysis

**Abstract:** The turmoil in the international political and economic situation makes it urgent to strengthen the research and control of corporate overseas investment risk. The article uses PEST analysis method to analyze the overseas investment risk of Chinese enterprises from four macro factors outside the enterprise. This paper mainly analyzes the types and influencing factors of overseas investment risks of enterprises, combines the status quo of overseas investment of Chinese enterprises and past failure cases, discusses the risk control methods of overseas investment, proposes the strategy of establishing internal investment risk control system and the future development of enterprises overseas.

## 1. Introduction

In the context of China's increasingly active investment entities and industries, risks from different external fields are gradually increasing. This requires Chinese companies to improve their ability to circumvent or solve overseas investment risks, and prepare and analyze the entire investment project.<sup>[1]</sup> And tracking work. Based on the research and analysis of the four macro factors of Chinese enterprises' overseas investment risks: political, economic, social and technological aspects, this paper aims to strengthen the Chinese enterprises' own ability to resist risks and propose corresponding measures to coexist in opportunities and risks.<sup>[2]</sup> Under the environment, seize the opportunity with great probability and resist risks more effectively.

## 2. China's overseas investment development status

According to the amount of overseas investment provided by the business data center and the amount of risk in the report, it can be seen in Figure 1 that from 2009 to 2016, with the expansion of foreign investment, the risk of overseas investment is gradually increasing, but it has declined in 2017.<sup>[3]</sup> This is because, in the gradual recovery of the global economy, the international market is increasingly increasing the demand for China's import and export. In order to avoid further reduction of foreign exchange reserves and maintain the stability of the RMB exchange rate, at the end of 2016, the central bank adopted foreign exchange controls to organize the trend of capital outflows. Overseas payments that require more than \$5 million in business must be reported to the SAFE for approval, and the original amount is \$50 million. This policy has made the transaction process more complicated, but it has little impact on small overseas investment, so overseas investment in 2017 is still increasing, but the risk has dropped.

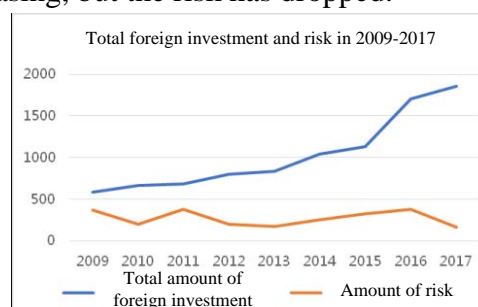


Figure 1. Chinese enterprises overseas investment risk case statistics

(Data source: compiled by China Global Investment Tracker)

Since China put forward the “One Belt, One Road” strategy in 2013, Chinese companies’ overseas investment is no longer just focused on developed countries, such as Australia and the United States.<sup>[4]</sup> More companies respond to policies and see the investment potential of the “Belt and Road” regional market. In East Asia, Europe, North and South America and other places have increased investment, but while obtaining good investment returns, overseas investment has also brought a considerable proportion of risk issues. The risk data of Chinese companies' overseas investment for the three years from 2015 to 2017 are as follows:

Table 1. 2015~2017 Chinese companies overseas investment risk data

Area	Number of cases	Amount involved	Proportion(%)	(“One Belt, One Road”)
Arab Middle East and North Africa	1	27	3.13%	1
Australia	6	102.1	11.85%	0
East Asia	14	102.2	11.86%	7
Europe	12	86.8	10.07%	4
North America	5	85.3	9.90%	0
South America	2	77.5	8.99%	0
Sub-Saharan Africa	8	42.9	4.98%	1
United States	17	244.7	28.39%	0
West Asia	9	93.3	10.83%	9
Total	74	861.8	100.00%	22

(Data source: compiled by China Global Investment Tracker)

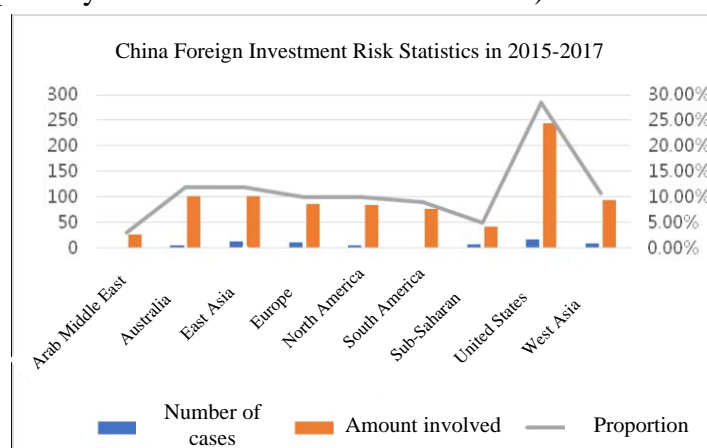


Figure 2. 2015~2017 Chinese companies overseas investment risk data

(Data source: compiled by China Global Investment Tracker)

Table 2. Chinese enterprises overseas investment risk case statistics

Area	Number of cases	Proportion(%)	Amount involved	Proportion(%)
Arab Middle East and North Africa	16	6.84%	220.8	6.35%
Australia	30	12.82%	590.7	16.98%
East Asia	41	17.52%	322	9.26%
Europe	32	13.68%	437.7	12.58%
North America	9	3.85%	153.7	4.42%
South America	11	4.70%	233.6	6.72%
Sub-Saharan Africa	34	14.53%	396.1	11.39%
United States	36	15.38%	653.6	18.79%
West Asia	25	10.68%	470.4	13.52%
Total	234	100.00%	3478.6	100.00%

(Data source: compiled by China Global Investment Tracker)

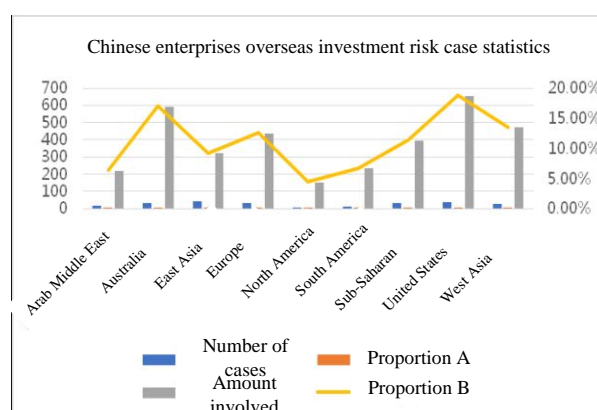


Figure 3. Chinese enterprises overseas investment risk case statistics

(Data source: compiled by China Global Investment Tracker)

### 3. Analysis of Factors Affecting Chinese Enterprises' Overseas Investment Risk Based on PEST

(a) Political risk is the biggest external influence factor for Chinese companies' overseas investment

In the three years from 2015 to 2017, there were 567 overseas investment by Chinese companies, amounting to 468.87 billion US dollars, and 541 construction contracts were signed, with a total amount of 284.47 billion US dollars. Among them, the top ten risk cases of Chinese enterprises' overseas investment are shown in Table 3: There are four cases affected by political risks, involving a total amount of US\$16.51 billion, accounting for 41.65% of the total amount.

(b) Economic risk, high probability risk faced by Chinese companies in overseas investment transaction settlement activities

According to Table 3, there are 4 cases affected by economic risks, involving an amount of 15.93 billion US dollars, accounting for 40.17% of the total amount.

(c) Social risk is an environmental factor that needs to be closely monitored in overseas investment activities

According to Table 3, there are 1 cases affected by social risks, involving an amount of 3.7 billion US dollars, accounting for 9.33% of the total amount.

(d) Technical risks are obstacles that affect the smooth progress of overseas investment

According to Table 3, there are a total of overseas investment cases affected by technical risks, involving an amount of USD 3.5 billion, accounting for 8.83% of the total amount.

Table 3. Top Ten Risk Cases of China Overseas Investment 2015~2017

Time	Chinese investor	Overseas investment projects/groups	Field	Amount involved	Risk type
2016.8	State Grid Corporation	Ausgrid, Australia	Energy	76	Political
2015.1	China Railway Engineering Corporation	Railway	Transport	75	Economic
2016.2	Ziguang Group Co., Ltd.	Western Digital Corporation	Technology	37.8	Political
2015.2	China Railway Construction Corporation	Railway	Transport	37	Society
2016.5	China Construction Corporation	Baha Mar Resort	Tourism	35	Technology
2016.1	Zoomlion Heavy Industry Co., Ltd.	Terex Corporation	Immovables	34	Economic
2017.2	Jinshajiang Venture Capital Fund	Royal Philips of the Netherlands	Technology	28	Political
2016.8	China Construction Corporation	Construction engineering	Immovables	27	Economic
2015.1	China Zhongwang	Aluminum industry	Metal	23.3	Political
2015.1	China Machinery Industry Group Co., Ltd.	Hydropower	Energy	23.3	Economic

(Data source: compiled by China Global Investment Tracker)

For historical reasons, Chinese companies in the past years often invest in some underdeveloped countries and regions with relatively poor economic development and low quality of technology and labor. Under the background of the expansion of overseas investment of Chinese enterprises, the technology of developed countries such as Europe and the United States Without the familiarity of standards and management processes and the inability to keep up with the development of diversified technologies, Chinese companies can easily experience technical risks in overseas investments. There is also a lack of attention to the management of employees and the possibility of their own technical mistakes. Chinese companies have experienced in the Middle East because of inadequate address and weather surveys, and failed to do a good job of employee emotional work, leading to large-scale strikes by Chinese workers. Enterprises should pay attention to the existence of technological risks, improve the internal and external management systems of overseas investment, do a good job in the evaluation and supervision of investment activities, and improve the ability to deal with emergencies.

#### **4. Conclusion**

In order to cope with the international market, the international situation and the investment risks caused by enterprises, under the premise that the identification and management ability of overseas investment risks need to be strengthened, the state and enterprises need to adjust the system and internal control, based on the risk status proposed in this paper. , make the following suggestions:

(a) The government must create a good environment for the economic activities of enterprises in the policy system; (b) Enterprises should pay attention to the construction of risk control mechanism: First, enterprises should pay attention to the construction of risk prevention mechanism. Secondly, it is best to have a more unified solution template for the political impact of China's overseas investment. Finally, state-owned enterprises or state-owned holding companies that still occupy high risks of overseas investment should be reformed to face international challenges to Chinese state-owned enterprises; (c) Enterprises should pay attention to changes in the international political and economic situation; (d). Enterprises must absorb the lessons of risk and always pay attention to make up for internal control loopholes.

Therefore, it is an important guarantee for Chinese enterprises to expand their international market share and promote the success rate of large-scale transactions by doing a good job of risk warning for overseas investment and cultivating risk identification and response capabilities to more effectively reduce overseas investment risks.

#### **References**

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