Political Risks and Countermeasures of Chinese Enterprises’ Investment in European Trade

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Abstract

Chinese enterprises may encounter political risks when investing in European trade, such as policy changes, government intervention, and trade barriers. To mitigate these risks, Chinese enterprises can implement several measures, such as enhancing government relations, enhancing policy adaptability, conducting risk assessments, and diversifying investments. These measures can help Chinese companies reduce political risks and protect their investment interests in the European market. Chinese enterprises can proactively establish cooperative relationships with European governments, engage in the policy formulation process, seek government support and resources, and mitigate the risk of government intervention in their business operations. In addition, Chinese enterprises should closely monitor policy changes in European countries and adjust their business strategies promptly to adapt to the new policy environment. Conducting risk assessment is an important step that involves comprehensively analyzing political risks and developing corresponding risk management measures to reduce investment risks. Furthermore, Chinese enterprises can diversify their investments to spread out their risks. By investing in various industries and markets across different European countries, individuals can decrease reliance on a single market and alleviate the effects of political risks. In addition, establishing partnerships with local enterprises is a way to reduce political risk. This strategy can leverage the resources and networks of local enterprises to minimize potential political intervention. In summary, Chinese enterprises need to pay attention to political risks when investing in European trade and take appropriate measures to address these risks. By strengthening government relations, improving policy adaptability, conducting risk assessments, and diversifying investments, enterprises can reduce the impact of political risks, thus safeguarding their investment interests.

Keywords

Chinese enterprises, Europe, trade and investment, political risks, countermeasures

Introduction

With the deepening of globalization, Chinese enterprises' trade and investment activities in Europe are becoming increasingly frequent. However, as a region with a diverse political environment and complex systems, Europe faces various potential political risks that may have adverse effects on the trade and investment activities of Chinese enterprises (Yang Liwen, 2019). This article will explore the political risks that Chinese enterprises may face in European trade and investment, and propose corresponding countermeasures to help Chinese enterprises better cope with and avoid these risks and ensure their commercial success in the European market.

In recent years, Chinese enterprises have gradually increased their trade and investment in Europe, covering are-
as such as infrastructure construction, energy, technology, finance, etc. Behind this phenomenon is the common demand of China to actively promote the "Belt and Road" initiative and European countries to seek economic development. However, in this process, it has also sparked some attention and controversy. In terms of the current situation of trade and investment in Europe, according to Eurostat data, in 2019, the bilateral trade volume between China and Europe reached 4.4 trillion yuan, an increase of about 8% year-on-year. China continues to maintain its position as the second-largest trading partner of the European Union. At the same time (Xu Qiyan, 2018), Chinese enterprises' investment in Europe is also increasing, and their investment fields are gradually diversifying. However, in this process, some issues have gradually become prominent, such as market competition, intellectual property protection, investment environment, etc. The importance of these issues lies in their impact not only on the survival and development of Chinese enterprises in the European market, but also on the economic and trade relations between China and Europe to a certain extent. For example, in terms of market competition, Chinese companies often face pressure in terms of technology, brand, and other aspects when competing with local European companies. In terms of intellectual property protection, some European countries have raised doubts about China's technology transfer and intellectual property protection. Meng Xiangzhen (2020) believes this may threaten the core competitiveness of European enterprises. In addition, the uncertainty of the investment environment, such as political risks and policy changes, also poses challenges for Chinese companies to invest in Europe. Studying the current trade and investment situation and related issues of Chinese enterprises in Europe can help us gain a deeper understanding of the opportunities and challenges behind this phenomenon, and provide a reference for Chinese enterprises to formulate more scientific and reasonable European market development strategies (Kong Lingqiang, 2016). At the same time, this will also help European countries understand the role of Chinese enterprises in the European market, and promote more balanced, mutually beneficial, and win-win economic and trade cooperation between China and Europe.

The purpose of this study is to analyze the current trade and investment situation of Chinese enterprises in Europe, explore the main problems faced in the European market, and the impact of these problems on the economic and trade relations between China and Europe. Through research, provide useful insights and suggestions for the development of Chinese enterprises in the European market. Research significance: Firstly, this study helps to enhance Chinese enterprises' understanding of the European market and provides data support for Chinese enterprises to formulate market strategies. Secondly, studying and analyzing the issues and challenges will help Chinese enterprises better cope with risks in the European market and improve their competitiveness in the European market. Finally, this study has practical significance for the development of China's European economic and trade relations and helps to promote closer and more balanced cooperation between the two sides in the field of economics and trade.

1. The impact of political risks on Chinese enterprises' trade and investment in Europe

1.1 The diversity and complexity of the European political environment may have an impact on the trade and investment activities of Chinese enterprises

Europe is composed of multiple countries, with significant differences in political systems and regulations. This means that Chinese enterprises may need to respond to different policies and regulations when conducting trade and investment activities in different countries, which increases operating costs and risks. There are some historical legacy issues and political disputes in the European region, such as the Brexit and Ukraine crises. These geopolitical risks may affect the cross-border trade and investment layout and risk management of Chinese enterprises. In recent years, some European countries have shown a tendency towards trade protectionism, and some trade barriers and restrictive measures may pose obstacles to the export and investment activities of Chinese enterprises, leading to a decrease in exports and increased uncertainty in trade and investment. Some regions have significant differences in political concepts and styles, while others hold a cautious attitude towards foreign investment or have certain issues with political stability, which may have an impact on the investment and operation of Chinese enterprises. EU member states have a certain degree of coordination in common foreign and economic policies. EU foreign trade and investment policies are formulated through the European Commission, numerous Chinese enterprises need to pay attention to the potential impact of EU overall policies on their trade and investment activities. Therefore, when Chinese enterprises engage in trade and investment activities in Europe, they need to have a deep understanding of the political environment, geopolitical risks, and the overall policies and regulations of the European
Union, in order to formulate targeted strategies and measures to reduce political risks and ensure the smooth progress of investment. At the same time, we will strengthen risk assessment and early warning of the political environment in the European region, establish mechanisms and contingency plans to respond to crises, and actively strive for reasonable rights and interests in geopolitical and political risks during the policy formulation process.

1.2 Types and specific manifestations of political risks

Political risk refers to the uncertainty and risks that may arise from political factors in the investment and business activities of a company. The government’s policy changes in trade, investment, taxation, and other areas may have a direct impact on the investment of Chinese enterprises. For example, policy adjustments may lead to an increase in import tariffs, tightening of foreign investment access conditions, changes in subsidy policies, and increased requirements for environmental standards and labor rights. This policy change may have an impact on the production costs, sales channels, and market access of enterprises. Political turmoil, including protests, government changes, and unstable political power, may affect the daily operation and investment environment of enterprises. Political turmoil may lead to social instability, deterioration of the legal environment, and even affect the production capacity and asset security of enterprises. The regulatory restrictions imposed by the government on foreign investment may result in restrictions on market access, product registration, and business licenses for enterprises. For example, the government may introduce new foreign investment approval regulations or implement stricter regulations on foreign-funded enterprises in specific industries.

2. Suggestions for European Political Risk Countermeasures

2.1 Establishing Stable Government Relations

Establishing stable government relations is crucial for mitigating the impact of political risks on businesses. Having a deep understanding of local regulations and political environment, actively researching and understanding the regulations, systems, and political environment of the target country or region can help enterprises fulfill their legal responsibilities, comply with local regulations, and reduce conflicts and conflicts with the government. Timely communication and policy advocacy, maintaining close cooperation and communication with relevant government departments, and timely understanding of policy changes and industry dynamics. At the same time, enterprises can also actively participate in policy formulation and advocacy through industry associations and other channels to ensure that the legitimate rights and demands of the industry are fully considered by the government. Establish a win-win partnership, actively establish partnerships with government agencies and local enterprises, with a vision to promote sustainable development and local economic growth, in order to gain support from local governments and stakeholders and reduce political risks. Strengthen social responsibility and public relations management, actively participate in local social affairs, promote local economic and social development, employment and other activities, and enhance the image of enterprises in the local society. This can enhance the government's trust in enterprises, thereby mitigating political risks. In short, by establishing stable government relations, enterprises can better cope with political risks, obtain government support, obtain a more stable and predictable business environment, and thus achieve stable development of trade and investment activities in Europe.

2.2 Strengthen political risk assessment and monitoring: It is recommended that Chinese enterprises strengthen their assessment and monitoring of the political environment in Europe and respond to risk events in a timely manner

Strengthening political risk assessment and monitoring is crucial for Chinese companies’ trade and investment in Europe.

1. Establish a dedicated team: Enterprises can establish a dedicated team responsible for political risk assessment and monitoring work. Team members need to have professional knowledge and experience in politics, law, and economics to better analyze and evaluate the possibility and impact of political risks.

2. Regular tracking of political developments: Enterprises should regularly track political developments, elections, policy changes, protests, and other events in various European countries, as well as their potential impact on the business environment and industry, especially regarding policy and regulatory changes related to the industry in which the enterprise operates (Turning Customers, 2016).
3. Establish a risk assessment model: Based on historical data and current events of political risks, establish a risk assessment model to quantitatively evaluate political risks, in order to better identify, evaluate, and manage potential political risks.

4. Seek support from professional institutions: You can seek the help of professional risk assessment and consulting agencies to provide professional advice and support in analyzing and evaluating European political risks.

5. Communication with other enterprises and industry associations: Communicate with other Chinese enterprises and local industry associations conducting business in Europe, share best practices and industry information on political risk assessment, and jointly monitor and prevent political risks.

6. Timely response to risk events: Once a potential political risk event occurs that affects the enterprise, the enterprise needs to take timely measures, adjust its strategy, and be prepared to respond to the potential impact of the event to protect the interests of the enterprise.

Ultimately, strengthening political risk assessment and monitoring can help Chinese enterprises gain a more comprehensive understanding of the changes and development trends in the European political environment, adjust strategies in a timely manner, effectively respond to risk events, and ensure sustainable development of enterprises in a complex and ever-changing political environment.

2.3 Seeking Political Risk Insurance: Chinese enterprises can consider the significance and methods of purchasing political risk insurance

Political risk insurance is a special type of insurance aimed at protecting businesses from potential losses caused by political events. With the global investment and business expansion of Chinese enterprises, purchasing political risk insurance has become increasingly important. This article will explore the significance and ways for Chinese companies to consider purchasing political risk insurance.

1. Ensuring investment security: Political risk insurance helps to ensure the investment security of Chinese enterprises overseas. In certain politically unstable or high-risk countries, political events may cause damage to corporate investment. Purchasing political risk insurance can provide certain protection for enterprises and reduce potential losses.

2. Stable operation: Enterprises face many uncertainties in operating in the international market, and purchasing political risk insurance can help stabilize their operations. When political risks occur, insurance companies can bear some or all of the losses for the enterprise, ensuring its continued operation.

3. Promoting overseas investment: With the promotion of national strategies such as the "the Belt and Road" initiative, more and more Chinese enterprises are going abroad. Purchasing political risk insurance can help reduce the risk of overseas investment by enterprises and promote the global layout and development of Chinese enterprises.

4. Enhancing international competitiveness: Political risk insurance can provide a stable operating environment for enterprises, enabling them to better leverage their own advantages and enhance international competitiveness.

2.4 Diversified Investment: Propose diversified investment strategies to diversify political risks and reduce dependence on the European single market

Diversified investment is an effective risk diversification strategy that helps reduce dependence on the European single market and reduces the impact of political risks on businesses.

1. Cross-border investment: Chinese companies can consider diversifying their investment targets to different European countries to diversify the political risks of a single country or region. By investing in multiple countries, companies reduce the risk of being affected by changes in the political situation of a single country.

2. Diversified business: In addition to investing heavily in foreign countries, enterprises can also diversify their layout in different industries and fields. For example, engaging in multiple industries such as finance, technology, and manufacturing, not limited to a particular industry, to diversify sensitivity to policy changes in a particular industry.

3. Joint investment: Joint ventures or collaborations with local enterprises or foreign partners to jointly develop projects can reduce political risks while sharing risks and leveraging the resources and experience of local partners.

4. Strengthen geopolitical risk analysis: When conducting diversified investments, comprehensively evaluate the geopolitical risks of different countries and regions, quantify the political risk levels of different countries and regions, and adjust investment portfolios accordingly to reduce overall risks.
5. Asset portfolio management: Managing asset portfolios invested in different regions can further diversify political risks through effective asset allocation and risk control.

6. Risk assessment and investment planning: Based on the assessment of political risks in European countries and regions, carefully plan investment portfolios, and combine factors such as economic development prospects and political stability in different regions to develop corresponding investment strategies to prevent potential political risks.

3. Evaluation of the Implementation Effectiveness of European Political Risk Countermeasures:

3.1 Effect of implementing countermeasures

Analyzing the effectiveness of implementing countermeasures is an important step in evaluating the success of political risk management. By implementing a series of measures to address political risks in Europe, companies can reduce the impact of trade and investment. The evaluation of effectiveness needs to be analyzed from several aspects:

1. Stability of government relations: the improvement and stability of government relations, as well as the role of government support. Has the impact of political risk on enterprises been reduced through advocacy, compliance and legality, and cooperation with government departments?

2. Implementation effect of political risk insurance: Has political risk insurance played a protective role in the event of political risk events, reducing losses for the enterprise?

3. Effect of diversified investment: Has diversified investment reduced the overall impact of political risks on the enterprise, and has the income generated to offset the investment costs.

4. Political risk assessment and monitoring: Strengthen the implementation effect of political risk assessment and monitoring, and whether the enterprise can respond to risk events in a timely manner to avoid or reduce losses.

By evaluating the above aspects, enterprises can better understand the effectiveness of various measures implemented, scientifically manage risks, and make decisions.

3.2 Summarize successful experiences and lessons learned

1) Establishing stable government relations: Successful examples have shown that through active government relationship management, enterprises can gain government support and understanding for their development, reducing the impact of political risks on enterprises.

2) Diversified investment: Successful business examples have shown that diversified investment can effectively reduce political risks, diversify investment portfolios, and reduce dependence on the European single market.

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