

# Research on Contract Risk Identification for Chinese Construction Enterprises “Going Global” Under the Background of “The Belt and Road Initiative”

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**Abstract—**The proposal of the“ The Belt and Road Initiative ”has provided great convenience for construction enterprises “ Going Global ”. Firstly, this paper analyzes the current situation of "Going Global" of Chinese construction enterprises, identifies the risks faced by "Going Global" of construction enterprises, and puts forward some suggestions on how to prevent the risks of "Going Global" from the perspective of strengthening the life cycle management of contracts and reducing the risks.

**Keywords:** “The Belt and Road Initiative”, construction enterprises, going global, full life cycle, risk identification, contract management

## I. INTRODUCTION

With the continuous promotion of "The Belt and Road Initiative" and the gradual implementation of a number of major benchmarking projects, Yunnan has actively guided and encouraged enterprises with advantages, capabilities and competitiveness to Go Global and expand the development space of enterprises with the advantages of geopolitics, popularity, channels and industries. "Going Global" has realized the important measures of Taking Yunnan as the center and connecting with the strategic cooperation of Southeast Asia and South Asia. Yunnan has changed from the edge area and the "end" to the open front and radiation center.

The advantages of Yunnan's large channel are gradually showing, which has opened up the way for Yunnan construction enterprises to Go Global.

However, Chinese construction enterprises, including Yunnan construction enterprises, have encountered considerable difficulties in this process. Even if profit is not the only evaluation standard, many large-scale construction projects not only lose investment costs, but also owe debts, and even lose the possibility of continuing to enter the market. Therefore, it is more and more important to enhance the risk identification in large projects and the life cycle management of contracts.

## II. LITERATURE REVIEW

### A. Foreign related literature

The“Going Global”of enterprises belongs to the category of foreign direct investment, and its industrial effect lies in the transfer of international industries. Since the 1950s, the relevant theories of international direct investment have developed rapidly with practice. Originally focused on the investment of developed countries in developing countries, the classic theory includes the “International Production Eclectic Theory” proposed by British economist Dunning (Dunning, 1977, 1986) and the American economist Raymond Vernon. Product Life Cycle Theory (Raymond Vernon, 1966),

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Japanese scholar Kojima Kiyoshi's "marginal industry transfer theory" (Kiyoshi Kojima, 1973, 1978) and so on. In recent years, with the rapid growth of foreign direct investment in developing countries, the academic community has also proposed a series of theoretical views on FDI in developing countries, such as Lao (1983), the theory of technological localization, Witt et al. (Witt et al., 2007) "Institutional Adaptation Theory" and so on.

#### B. Domestic related research literature

After the reform and opening up, China began to implement the reform and opening up policy both internally and externally. The government set its sights on the international market and encouraged the people to "set up enterprises abroad". With the support of national policies, China's outbound investment projects are rising rapidly. In the late 1990s, the financial crisis spread throughout Asia, and Asian countries hoped to transfer the crisis to other countries due to the economic downturn. Therefore, they formulated different foreign strategies. In order to increase the volume of foreign trade, China encourages businesses to set up enterprises in foreign countries, realize the front-line process of manufacturing, processing and installation, and reduce the cost of exporting products. In addition, the state council also issued the "opinions on encouraging enterprises to carry out overseas processing and assembly business" as a system guarantee for the development of China's multinational enterprises. In March 2000, China's National People's Congress at the third session of the ninth session of China's enterprises to implement the "Going Global" development strategy. At the fifth plenary session of the 15th central committee of the communist party of China, the "Going Global" strategy was formally put forward in the implementation schedule, and China was determined to comprehensively promote this strategy. Moreover, in order to have a better and stronger domestic environment for the "Going Global" strategy, China also introduced a series of construction policies, such as the development of the western region and the construction of urbanization.

Yansheng Zhang , a well-known scholar, put forward the importance of "Going Global" strategy in 2014, claiming that this strategy can promote China's integration into the global economic development stream and win China international

status and long-term consumer market.Haitao Chai (2015), on the other hand, looked at the "Going Global" strategy implemented by Chinese enterprises from another perspective and put forward many environmental factors that are not conducive to the development of this strategy. For example, in terms of economy, Chinese enterprises only adapt to the domestic economic environment and are not quite adapted to the international development mode.[1]

### III. ANALYSIS OF THE STATUS QUO OF YUNNAN ENTERPRISES' GOING GLOBAL

#### A. The status quo and analysis of "Going Global" of construction enterprises

##### 1) Status and Analysis

For Yunnan province, is building construction for South Asia, southeast Asia, promote the implementation of Vientiane Laos comprehensive development zone, the Laotian capital, Vientiane to match color tower mill Butyl port highway Vientiane to Laos, Myanmar her honey haired drift special economic zone in the industrial park and deep water port, main Ruili - Muse (cross-border) border economic cooperation zones, Myanmar Mandalay municipal transport infrastructure to promote transformation, Ruili, the eight MoXin Road port of a batch of major projects, etc.

In addition, at this stage, the construction market in our country has become more and more saturated, and the problem of "Party A's market" is very prominent. In order to get the project in hand, some contractors use low price bidding and malicious bidding to disrupt the construction market, which will also have a negative impact on contractors. The fierce competition in the domestic market also forces the construction enterprises to "Going Global" and open up a wider international market.

##### 2) Development strategy and analysis

Yunnan construction enterprises should understand the actual conditions of the more than 60 countries along the belt and their future development plans, and formulate corresponding development strategies. EPC general contracting, labor subcontracting, joint venture and cooperation contracting, self contracting and other forms can be selected, or PPP business model of local government and social capital cooperation can be adopted if conditions permit in the partner country.

### B. Risk Identification of "Going Global" in Construction Enterprises

Table I. Identification of Risk Influencing factors in "Going Global" of construction enterprises

Contract factors	Enterprises Going Global of the country often encounter situations such as big differences in understanding contracts, poor communication in signing contracts, and even ignoring contracts.
Political factors	At the same time, the political environment of Southeast Asia market is more complex, and its instability affects the development of enterprises.
Legal factors	Different countries have different laws. Once disputes arise, it is difficult to effectively protect enterprises with Chinese laws.
cultural factor	Part of Southeast Asian countries believe in religion, and poor communication with local people will often delay the construction period and cause huge losses to enterprises.
Enterprise factor	Most of the domestic large-scale construction enterprises are dominated by state-owned enterprises, which is different from the situation in many countries, so there is a lack of similar development experience, especially in the process of Going Global.

standard item	However, due to the local environment, religious belief and a large number of design change requirements of the owners, China Railway Construction lost 4.153 billion RMB.
Projects with insufficient investigation	In 2008, Sinopec spent \$1.8 billion to acquire a 100% stake in Tanganyika oil company, Canada, to acquire its oil exploration and production rights in Syria and Egypt. However, due to technical factors, the field can not be utilized and there is no return.
Projects with cultural differences	The same project of China Overseas Engineering Co., Ltd. in Poland in 2010 was delayed for one month due to the local breeding season of rain frogs.
Projects disregarding environmental impact assessment	In 2009, the Chinese and Burmese governments plan to build seven level trapezoidal hydropower stations. BANCA, an environmental assessment agency, issued a report on the serious impact of the power station on the environment and forced the Myanmar government to stop the cooperation project.

## IV. CASE ANALYSIS

### A. An Analysis of the large-scale projects failed by Chinese Enterprises in recent years

Table II.[2]

Low price winning project	In 2010, China Overseas Engineering Co., Ltd. won the bid at a low price, and then raised the price to win the project. However, it encountered setbacks in Poland, where the law is perfect and strict. The project was not completed when it was due, resulting in a huge compensation of 1.751 billion yuan, and the bank's deposit freeze was also sued by several units.
Contract is the only	In February 2009, China Railway Construction and Saudi government signed the Mecca light rail project contract.

### B. Basic situation and problems of Yunnan Construction Enterprise Project

#### 1) Take the China-Myanmar Ruili border (cross-border) economic cooperation zone project in myanmar as an example

##### a)Basic information of the project

On May 16, 2017, premier li keqiang in Chinese government and the testimony of Burma's senior minister aung SAN suu kyi, Chinese minister of commerce Zhong Shan and Myanmar authorized representatives of the transport ministry secretary Wu Danxin appearance was formally signed in Beijing the ministry of commerce of China and Burma's ministry of commerce about the construction of the sino-burmese border economic cooperation zones in the memorandum of understanding, the two sides reach a consensus, in Ruili, and construction of Muse a border zone, cooperate with the government tried to build its by the

enterprise become a key node for south southeast Asia radiation center, edge and blend the channel hub, communication window and industry base platform function.

*b) Existing problems*

Table III.

External	Inside
Backward infrastructure and weak industrial foundation	Large investment, long payback period and huge capital pressure
Risks brought by political environment	Many infrastructure projects such as expressways have large investment and long payback period
The price standard of land acquisition and demolition is too high	High cost of domestic financing

### V.RISK IDENTIFICATION

First, the full life cycle of the contract is sorted as follows:

Table IV

Opportu nistic search	Bidding	Contract negotiation	Contract implementation	Contract Close-out

Then the risks in the contract are identified and listed as follows:

TableV.

Oppor tunity risk	Tende r risk	Contr act negoti ation risk	Contr act imple men ta tion risk	Contr act chang e risk	Claim risk	Contr act closin g risk	Contr act residu al risks

After risk identification, the identified risks can be quantitatively analyzed based on risk assessment methods (such as risk matrix), and the next step of risk assessment research can be carried out.

### VI. CONCLUSIONS AND SUGGESTIONS

*A. Research conclusions*

When Chinese enterprises enter European market, African market and Southeast Asian market, their experiences and lessons prove that they should strengthen their ability of risk identification and contract management, especially the full cycle management of contracts.

Because large-scale project is different from small-scale project, which has the characteristics of high technical requirements, large cost input and long project cycle, enterprises need to arrange unified management from the perspective of full life cycle management to reduce costs and risks. Based on the complexity of large-scale projects, in addition to the contract signed by the business owner and the contractor to manage the contract, the contract between all stakeholders needs to be managed in a unified way, so this paper proposes the full life cycle management of the contract is very important.

*B. General recommendations*

First of all, the enterprise should identify the risks in the contract from the perspective of the full life cycle risk management of the contract.

Secondly, the possible risks of the enterprise are clear in the contract management. Connect the initial project management (such as bidding) with the project implementation management, and manage the large-scale project uniformly based on the life cycle management of the contract.

Finally, enterprises can refer to foreign contract regulations, such as FIDIC contract and British JCT contract, which can be compared with the current Construction Project Construction Contract (model text) (GF-2017-0201) in China, and formulate contracts in line with the "Going Global" of enterprises to deal with the market in Southeast Asia.

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