

2014

BioTechnology

An Indian Journal

FULL PAPER

BTAIJ, 10(15), 2014 [8647-8653]

Chinese mining enterprises' prevention on transnational investment project risks

Weixi Guo

Henan Polytechnic, Zhengzhou, 450006, (CHINA)

ABSTRACT

Economic globalization has an significant influence on the world economy. Transnational investments become more and more frequent, to bring opportunities and risks. Now it is very common for multinational investment, so do Chinese mining enterprises. Transnational investment can bring a great amount of profit, but also contains huge risk, if enterprises could not control and avoid the risk effectively, enterprises maybe suffer big losses. At present, Chinese mining enterprises are insufficient to supervise and prevent the transnational investment risk, but not strong, but are addicted to invest, which are faced the special investment risk. The mining enterprises in our country in our country, which have the capacity of investment,are essential to own the risk prevention.Based on the characteristics of China's mining industry, this paper analyze the risk sources and paths of multinational investment to identify the risks, establish risk prevention database, and ultimately provide the methods to prevent risk. This preventive methods have industry particularity to be as reference in this industry.

KEYWORDS

Mining enterprises; Transnational investment; Project risks.



INTRODUCTION

With the boost of global economy, the environment of international economy has gone through great change. It so common for enterprises to invest overseas. So do the Chinese mining enterprises. The reason why so many great company are enthusiastic about this is that the great profit it brings. Meanwhile, there is no investment without risks. If those companies cannot control and avoid these risks, they may suffer great loss. Now Chinese mining enterprises do not have a strong control over transnational investment and supervisory control. However, there are many overseas investment are upon. Facing so many investment risks, it is important for mining enterprises to have a good control over these risks.

ANALYSIS OF CHARACTERISTICS ABOUT THE RISKS OF CHINESE MINING ENTERPRISE MULTINATIONAL PROJECT INVESTMENT

With the reform and open of Chinese economic system, the transnational investment projects of Chinese mining enterprises come into being gradually. Based on the Chinese mining enterprise, there are such characteristics about mining enterprises which invest overseas.

The controllability of the non system risk

There is no investment without risks. However, some risks are potential risks, which may not turn into real risks. It will take time and conditions for potential risks to become real risks. People could make effort to prevent or solve such kind of risk.

The vulnerability of the inherent income in this industry

Transnational investment risk of mining enterprise can be affected by its industry characteristics. In result of this influence, the income from investment could be determined by many factors. For example, such factors as strong volatility of mining prices, large size of mining investment, high cost, long turn and the outcome which might be influenced by market price and inflation, which is shown in TABLE 1.

TABLE 1 : Phases of Investment

Stage	Techniques
Early stage Exploration	Trenching Geophysics Geology
Resource Identification	Trenching Drilling Geophysics Discovery
Resource Definition	Global resource Infill drilling Step out drilling
Pre-Feasibility Study	Engineering Metallurgical Mineable resource Cost estimates Optimization
Feasibility study	Capex Operating costs Reserves
Development	Construction Financing Engineering Permitting
Production	Growth Operating Start-up

The turbulence of the social economic environment

The transnational investment of Chinese mining enterprises are extended expansion, which directly leads to a rapid expansion of the size and the staff of Chinese mining enterprises. What comes with this expansion is more management levels, bigger span of management, inflexibility of decision making and monopoly. All of these will reduce efficiency of Chinese mining enterprises and the whole society. Especially the merger and acquisition lack of complementary, which will make its share price take turn up without social false prosperity. It is known that bubble economy will collapse sooner or later

without real benefit. Therefore, the expansion of Chinese mining enterprises which comes from merger and acquisition must be based on the increasing efficiency of the enterprise and even the whole society. If not, the economies of scale not only produces low profit but also will waste economical resource. From Figure 1, it could be seen the ways money goes.

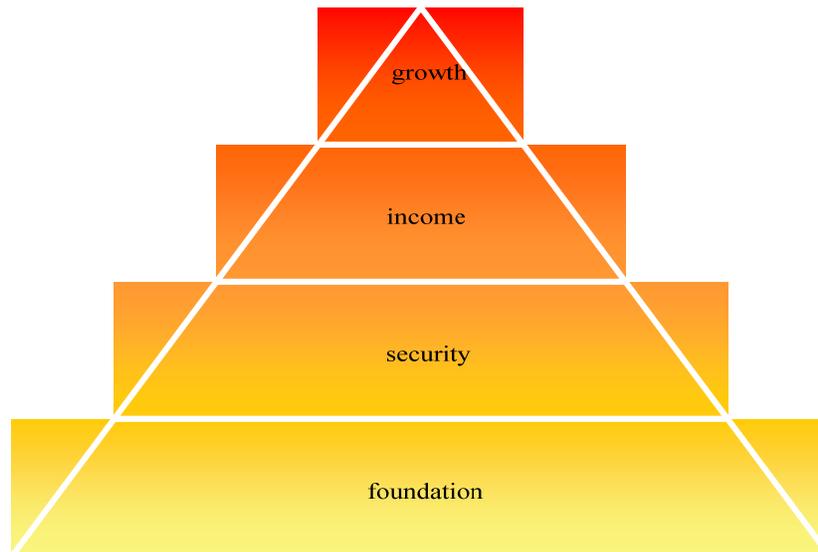


Figure 1 : Precious metals investment pyramid

SOURCE OF CHINESE MINING ENTERPRISES TRANSNATIONAL INVESTMENT PROJECT RISKS

For transnational investment of Chinese mining enterprises, there are risks coming from both the internal environment and the external environment. Risks coming from external environment could be divided into the risk resource of transnational investment and the risk resource of mining project development. On the other side, the risk coming from the internal environment includes the fiscal risk and management risk. Flow Chart of Investment is shown as Figure 2:

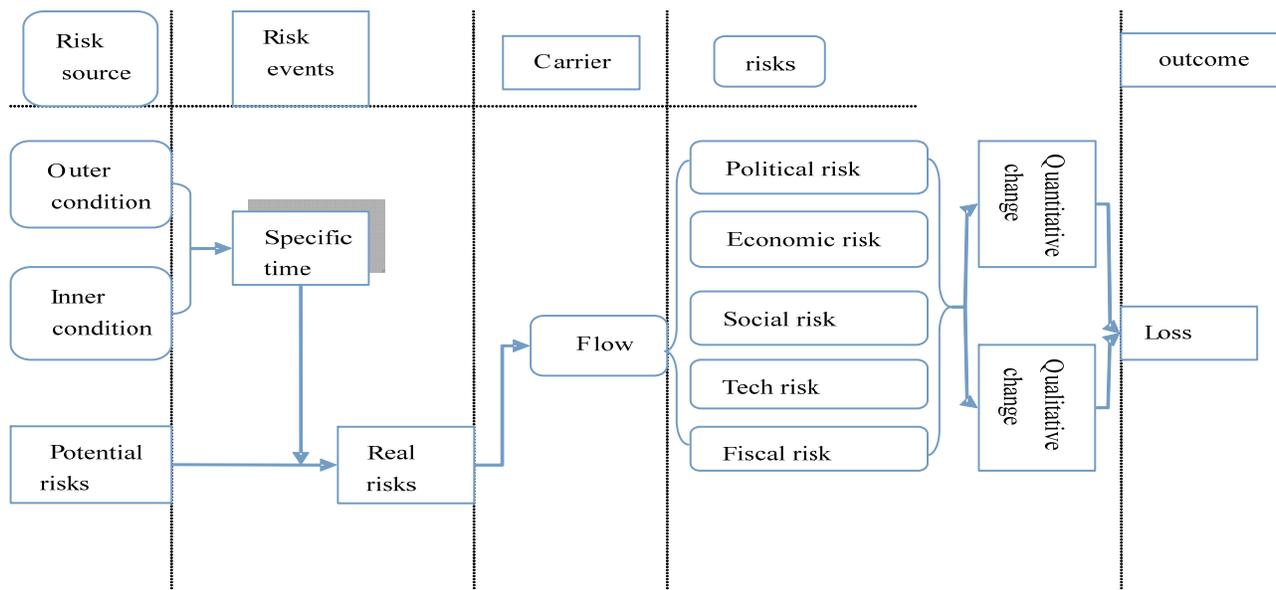


Figure 2 : Flow chart of investment

Seeing from Figure 2, the risk flow of Chinese mining transnational investment released from risk resource and it will be carried to the each step of the investment project. It could be seen from Figure1 that risk resource exists between the internal and the external environment of the mining enterprises and transnational investment offers the potential risks the opportunity to become real. With the constant changes coming from the external and the internal of Chinese mining enterprises, the risk flow will be triggered.

THE RISKY SOURCE OF THE EXTERNAL ENVIRONMENT (THE POLITICS, ECONOMY, SOCIETY, NATURE, TECHNOLOGY AND FINANCE IN FOREIGN COUNTRIES)

- (1) Political risk resource. It usually comes from the influence of the state stability, the interference from a government to a project, the effect of law and policy and the influence of finance and taxation.
- (2) Economical risk resource. Where it often appears is the interest rate, exchange rate, mine prices, supply and demand, inflation and so on.
- (3) Social risk resource. Custom matters most.
- (4) Natural risk resource. The condition of the earth, quality of mine, unforced factors and the environmental protection belong to this kind of risk.
- (5) Technological risk resource. It usually appears in the phases such as the exploration, development and contracture.

THE RISKY SOURCE OF THE INTERNAL ENVIRONMENT (THE FINANCE AND MANAGEMENT FOR THE INVESTORS)

- (1) Financial risk resource. Such as the influence of financing, paying back period.
- (2) management risk resource. It usually comes from the human resources and the organizational structure, which is shown in Figure 3.

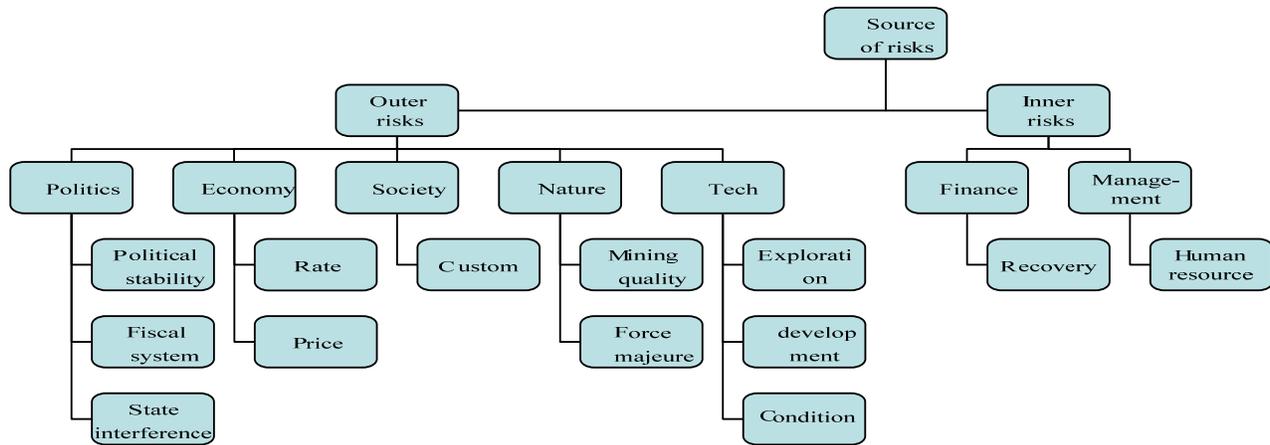


Figure 3 : Source of risk

IDENTIFIABLE METHODS OF CHINESE MINING ENTERPRISES TRANSNATIONAL INVESTMENT PROJECT RISK

Generally, there are two kinds of methods to evaluate the transnational investment risk.

The analysis of the macro risk factors based on Pest

This method is to compare the external factors which will influence the enterprise and the industry. The comparison among the uncontrollable external factors is to help seize the opportunity, avoid the risks, increase the flexibility of a company, promote the sustainable development and strengthen the capacity of creativity. It includes four aspect, such as politics, law environment (including law, system and politics), economical and social environment.

The analysis of risk based on SWOT

SWOT will pay attention to the internal environment of an enterprise. Knowing the characteristics of this enterprise clearly help its decision maker who are facing external opportunity and threat. Then they could put different strategies to use to develop their own enter prices, which can be seen from TABLE 2

TABLE 2 : SWOT

	Strengths (S)	Weakness (W)
Opportunity (O)	Strengths matches opportunity SO	Weakness matches opportunity WO
Threat (T)	Strengths matches threat ST	Weakness matches threat WT

The model of SWOT combines the outer condition and limitation with shortcoming and advantages of the enterprises itself. With the analysis of steady system, it help decision maker know the risk which a project may face and the position it is, which is shown in Figure 4.

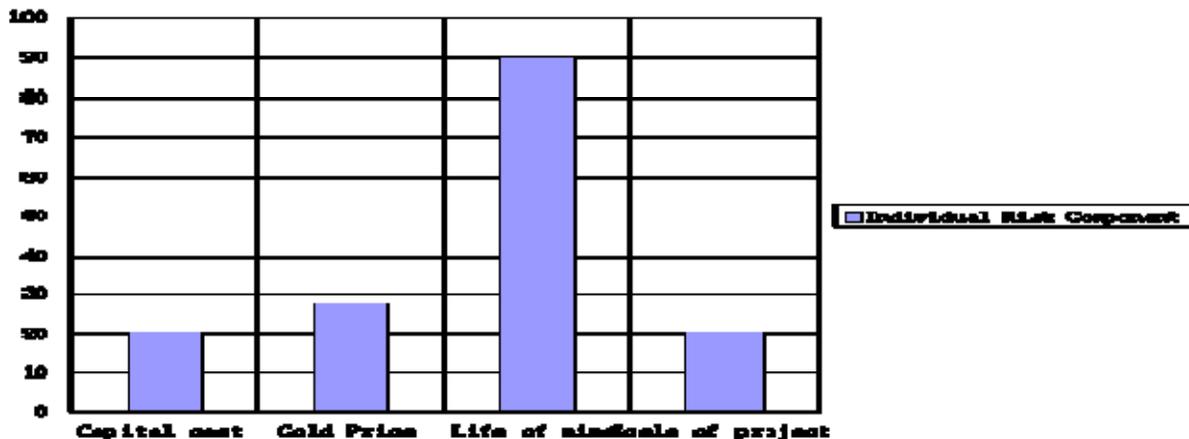


Figure 4 : Individual risk component

TABLE 3 : Degree of prevention

First-class index	Second-class index	Degree of prevention		
		High	Middle	Low
External Risks	Natural risks N			Environmental protection N1 Mine quality N2 Earth condition N3 Unforced factors N4
	Political risks P		Law risk P3	State stability P1 Policy P2
	Economical risks E		Exchange rate E3 Interest rate E4	Inflation E1 Market E2
	Social risks S	Custom risk S1		
Internal Risks	Tech risks T		Technology and equipment T1	
	Fiscal risks F	Financing F2		Paying back period F6
	Management risks M	Human resource M1 Unity and coordination M3	Organization structure M2	

PREVENTIVE PATHS OF CHINESE MINING ENTERPRISES TRANSNATIONAL INVESTMENT PROJECT RISK

The conventional paths

Seeing from format 3, mining enterprises need to evaluate the local conditions in their transnational investment. With the deep research about domestic policy and economical environment as well as foreign market, law and political atmosphere.

(1)Getting the support from government

The characteristics of transnational investment are diversity and complexity. When a company wants to success, it has to get support from its own government. Its own government actively takes part in the international and regional agreement on investment.

(2)Enterprises themselves to take risk preventable strategy

The critical paths: the risk prevention in law, financing, exchange rate, investment,management, which can be seen from Figure 5.

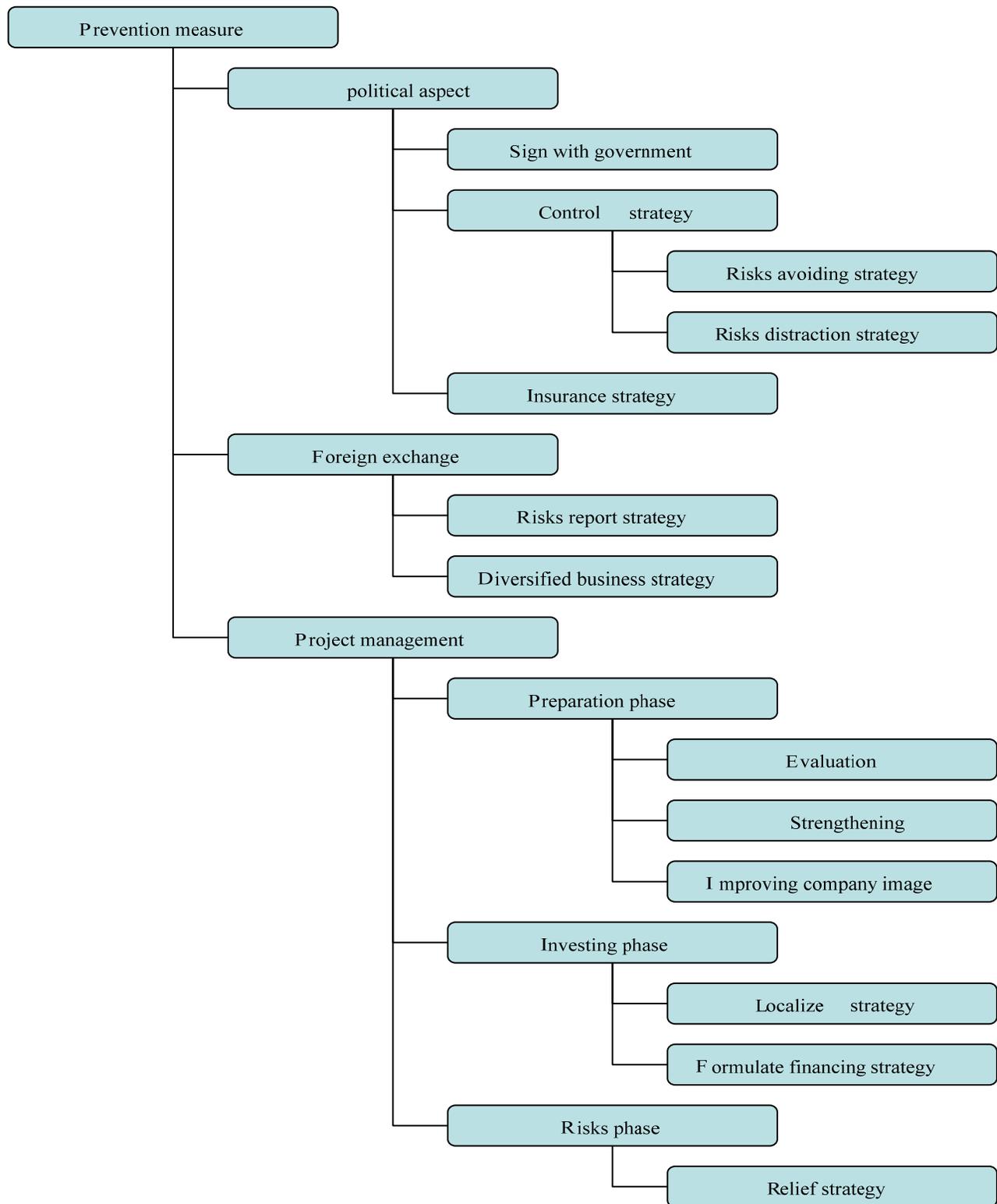


Figure 5 : Revention measure

CONCLUSION

The risk of transnational investment can never be wiped out. What's more, with the development of transnational investment, more larger size it becomes, the factors that could influence the transnational investment are becoming more and more. Therefore, in the process of Chinese mining enterprises transnational investment, there is a must that the leaders have to master the ability to recognize threat and control the risks. Knowing the risk resources in the transnational investment and recognizing the external and internal risks help set up database of risks and take measures to prevent these risks and then lower the loss which might be caused by risks for mining enterprises.

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