Discussion Paper

POLITICAL RISK FACTORS: WHAT CHINESE COMPANIES NEED TO ASSESS WHEN INVESTING IN AFRICA

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ABSTRACT

Security and profitability objectives are becoming more relevant for Chinese firms as they expand their business operations on the African continent, where the political environment often exposes the firms to high political risk. Political risk analysis is increasingly important as a way of identifying, assessing and addressing the issue of political risk. This study explores the political risk factors that may influence the operations of Chinese firms operating in Africa.

Economic development, social development, political instability, corruption and political violence are host country factors that may shape the African political environment and foreign business firms’ exposure to political risk. Company-specific factors may have a negative or positive impact on the exposure of Chinese firms to the host country’s political risk environment in Africa.

Firstly, the size, ownership and the relationship of the firm with the home government may influence a firm’s bargaining power in a host country. Large and diversified firms, especially Chinese state-owned enterprises in strategic sectors generally have more bargaining power than small firms.

Secondly, company resources such as capital, experience and technical expertise may give a company a competitive advantage over other firms, especially when the host country lack in these areas.

Thirdly, the political behaviour of firms such as partnership formation with the government may be beneficial to business operations. However, in unstable countries this may pose a risk to Chinese firms being targeted or losing contracts in cases of regime change.

Fourthly, the more the country is economically dependent on the company or the home country, the more bargaining power the company has and it is less likely that the government would intervene. African countries may become more and more economically dependent on China as China-African trade relations expand and Chinese concessional loans become more relevant to African countries.

Fifth, a firm’s reputational risk may be influenced by firm culture, its response to corporate social responsibility, environmental concerns and labour issues. Chinese firms generally have the reputation of having a more top-down business culture and not integrating corporate social responsibility, environmental concerns and labour issues into their business operations.

Lastly, because an international business firm may be associated with its home country, the home-host country government relations may influence the firm’s political risk exposure. While this association may have negative consequences for Chinese firms in some cases, China’s increasing involvement in African diplomatic relations, peacekeeping missions and association with the African Union may add to China’s image in Africa as a responsible power sensitive to African security.

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The views expressed in this paper are those of the author.
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<tr>
<td>AU</td>
<td>African Union</td>
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<tr>
<td>CDB</td>
<td>China Development Bank</td>
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<td>CNOOC</td>
<td>China National Offshore Oil Corporation</td>
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<td>CNPC</td>
<td>China National Petroleum Corporation</td>
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<td>CSR</td>
<td>Corporate Social Responsibility</td>
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<td>DRC</td>
<td>Democratic Republic of Congo</td>
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<td>EIU</td>
<td>Economic Intelligence Unit</td>
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<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>FOCAC</td>
<td>Forum on China-Africa Cooperation</td>
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<td>GNPOC</td>
<td>Greater Nile Petroleum Operation Company</td>
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<td>ICBC</td>
<td>Industrial and Commercial Bank of China</td>
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<td>ICG</td>
<td>International Crisis Group</td>
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<td>MFA</td>
<td>Ministry of Foreign Affairs</td>
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<td>MNC</td>
<td>Multinational Corporation</td>
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<td>MOFCOM</td>
<td>Ministry of Commerce</td>
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<td>NOC</td>
<td>National Oil Corporation</td>
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<td>ONGC</td>
<td>Oil and Natural Gas Corporation</td>
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<tr>
<td>SASAC</td>
<td>State Asset Supervision and Administrative Commission</td>
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<tr>
<td>SOE</td>
<td>State-owned Enterprise</td>
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<tr>
<td>UNSC</td>
<td>United Nations Security Council</td>
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<td>US</td>
<td>United States (United States of America)</td>
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1. INTRODUCTION

China’s growing economic interest in Africa is evident from the presence of Chinese business activities on the continent in the form of trade, foreign direct investment (FDI), state-backed loans, attempts to establish special economic zones and the existence of construction contracts. While developed countries are currently constrained by the world economic downturn and sovereign debt problems, China has large foreign currency reserves and seems willing to invest in Africa, despite the unstable political environment of many African countries. Although the Chinese approaches towards political risk management are now more sophisticated than in the initial stage of their business internationalisation, Chinese investors generally seem less risk-averse than their Western counterparts (Moreira, 2013). The evacuation of more than 30 000 Chinese workers from Libya during the political turmoil in 2011 highlighted the need for Chinese companies to pay more attention to political risk in their investment decisions (Belligoli, 2012).

This study explores the political risk factors that Chinese companies may face when operating in Africa. In the first section political risk and political risk analysis are conceptualised. The second section discusses the African political environment and the host country political risk factors that foreign business firms operating in Africa may be exposed to. The last section explores company-specific factors that may influence the way in which Chinese businesses are affected by political risk.

1.1 CONCEPTUALISING POLITICAL RISK

Political risk is one of the business risks that firms may encounter when operating in a foreign country. The conceptualisation of political risk evolved since the 1960s and 1970s when expropriation was the key business risk associated with the politics of a host country. Indeed, the nature of political risk has changed as the world is more integrated and new political actors have influence in the global political economic environment. Today political risk is a “highly complex and multidimensional phenomenon”, as Jakobsen (2010:482) argues. Political risk may include amongst others international wars, economic sanctions, terrorism, government instability, state failure, creeping expropriation, breaches of contract, repatriation restrictions or subtle discrimination (Moreira, 2013:133).

While certain political events come as a surprise, for Fitzpatrick (1983:251), political risk is a process rather than a sudden event. This view is shared by Robock (1971:11), who argues that risk is not static and can change over time, as well as Sethi and Luther (1986:62), who refer to political risk as a “gradual event such as ideological changes”. Van Wyk (2010:115) also refers to “risk development” and thereby implies a process. While major political changes as a result of events such as elections, revolts or wars may pose political risk to firms, Bremmer and Keat (2009:4) emphasise that the collective impact of smaller events should not be ignored. For example, corrupt behaviour over time can have a major influence on a country’s political stability, and in turn may have negative consequences for business operations in that country.

Business risk is about the likelihood that an event or action may occur and have an impact on the business (Bremmer & Keat, 2009:11). When considering the impact of the political event or process on the company, consideration should be given to various goals of the business. Because investors or lenders expect a return on their investments, and managers or employees expect business operations to continue, the main goal of a business is profitability as a measure of a business’s performance (Van Wyk, 2010:112). However, businesses also have other goals such as strategic value, job and physical security of personnel, infrastructure security and the long-term survival of the business, all of which could be influenced by political events (Bremmer & Keat, 2009:11). While risk is usually associated with negative outcomes, Alon and Herbert (2009:130), argue that political risk is a neutral phenomenon. They point out that political risk can have positive and/or negative outcomes for different entities and therefore international firms should safeguard against negative risk factors, but should also identify and exploit politically based opportunities (Alon & Herbert, 2009:130). Kobrin (1979:67) makes the point that not all political events
or conditions that have negative connotations for one firm will necessarily have negative consequences for all international businesses in all situations. Frynas and Mellahi (2003:548) illustrate this by the example of the Nigerian civil war from 1967-1970 that disrupted the onshore oil production activities of foreign oil companies in Nigeria, but had a positive effect on oil companies that exploited the civil war by expanding their offshore oil production during the time of political instability. It is therefore not only the negative implications of risks that should be highlighted, but through risk analysis business opportunities can also be identified where “risk can result in gains, even if there is a probability of losses” (Van der Lugt & Hamblin, 2011:25). Van der Lugt and Hamblin (2011:25) argue that Chinese companies operating in Africa have this perspective of risk that can result in gains, and the idea of opportunities as the positive side of risk is “expressed in the Chinese character for ‘crisis’, which contains both the word ‘chaos’ and opportunity’.”

As Jakobsen (2010:482) argues, political risk is a multidimensional phenomenon. Brink (2004:25) emphasises the interrelationship of factors that can affect the business and investment climates, while Bremmer and Keat (2009:7) mention that one form of risk can create other forms of risk. For example, macroeconomic trends can influence political risk on the one hand, and on the other hand political decisions can have economic consequences that may impact on business operations (Bremmer & Keat, 2009:9). Howell and Chaddick (1994:1) also mention the social dimension of the political environment, where social conditions may have political consequences. Furthermore, Alon and Martin (1998:11) argue that the sources of political risk are not limited to the host country, but also imply factors that originate from the home country environment, the international environment and the global environment. For example, the Canadian oil company, Talisman, withdrew from Sudan in 2003 after pressure from human rights activists in Canada and the United States of America (US) because of alleged human rights abuses during the Sudanese civil war (Kobrin, 2004:428). Stopford and Strange (1991:1) argue that firms and governments are mutually interdependent in a globalised world, as governments compete to attract FDI and firms become dependent on governments as they compete with other firms across national borders. Other than governments, Jakobsen (2010:482) and El Kattab, Anchor and Davies (2007) also add other political actors such as terrorists, activists, rebel groups or stakeholders as a source of political risk.

From the discussion, for the purposes of this paper, political risk is broadly defined as:

> the risk that political processes or events influenced by various actors and circumstances or factors may have an impact on an international company’s goals, operations, assets or financial condition.

Scholars such as Robock (1971), Simon (1982), Frynas and Mellahi (2003), Alon and Herbert (2009) and Baas (2010), emphasise the macro and micro dimension of political risk. While macro political risk refers to the dimension of political risk that will affect all companies and all industries operating in the host country or in a certain geographic region, micro-political risk is firm-specific, meaning that it affects only a single firm or a select group of companies or business activities (Alon & Herbert, 2009:129). Alon, Gurumoorthy, Mitchell and Steen (2006:625) give the example of potential war that would have a major influence on an oil-producing company, while the balance of payments situation in a country would have a major impact on risk for the banking industry. Frynas and Mellahi (2003:541,544) argue that within the same industry different firms that are exposed to the same political event or environment can be affected differently because of the specific firm’s strategic capabilities and resources such as its technical abilities, a firm’s high-level government connections or historical advantage. Micro political risk is therefore discriminative towards certain companies, either because of the industry in which the company operates or because of other characteristics and factors attached to specific companies. Alon and Herbert (2009:129) make the point that micro political risk is not independent from macro political risk as micro risk also originates from internal and external as well as economic, societal and governmental forces, but that some enterprises are more likely than others to be affected by certain macro political risks. Frynas and Mellahi (2003:541) further argue that international firms are not merely “passive bystanders”
influenced by the political environment in which they operate, but they can be active actors in shaping that environment or in exploiting it for their own benefit (Frynas & Mellahi, 2003:541,562). Depending on the resources of the company, political risk is a risk that can be managed in such a way that the impact on the business is mitigated. However, in order to manage political risk, political risk must be assessed, for example by way of a political risk analysis.

1.2 POLITICAL RISK ANALYSIS AND THE AIM OF THIS STUDY

The purpose of political risk analysis is to provide information on the nature and level of political risk for investors on which they can base decisions about their investments and business operations, and to manage the political risk in such a way that the negative effect on the business is mitigated. Risk assessments assist the investor in weighing up the opportunities of high returns against potential losses (Brink, 2004:148). Political risk analysis is grounded in problem-solving and decision-making theory, “generally assumed to be a theory underlying rational decision-making under uncertainty” (Brink, 2004:30). For Venter (1999:1), the principle of reasoned and defensible decision-making is that a “decision-maker should anticipate future events, decide what measure of control is possible over those events and make a choice from those events that will produce a preferred outcome.” The analysis of political risk is a tool that investors can use to make reasoned and defensible decisions regarding investments (Venter, 1999:1). By conducting political risk analyses, investors can reduce uncertainties about the future and will be in a better position to make rational choices about their operations in the foreign country.

A clear understanding of all factors and its indicators that can have an influence on political risk is necessary to conduct a reliable and purposeful political risk analysis. Although there are different methods of political risk analysis, Kobrin (1978:114) emphasises that such an analysis requires a systematic evaluation of political risk where possible political risk events are identified and the probability as well as the consequences for the investor assessed. Furthermore, political risk analysis should be done on a regular basis as new information might lead to new forecasts (Hough, 2008:2). A distinction should be made between predicting and forecasting future political events that may affect the investor. While it is not possible to accurately predict political risk, political risk can be forecasted based on evidence such as scientific theories and empirical evidence that support the forecast (Brink, 2004:27). A forecast is the probability that a political event might cause losses for the investor in the future (Brink, 2004:27). Bremmer and Keat (2009:23) are of the opinion that through political risk analysis it is even possible to identify the risk of events that have a low probability of happening, but that would have a high impact on investors, like the 9/11 terrorist attacks in the US. However, Brink (2004:28) points out that even the most sophisticated forecasting models and sources of information have limitations and therefore it is not possible to have absolutely accurate forecasts. Although political risk events cannot be predicted, they can be forecasted on the basis of political risk analysis. The validity and the reliability of the forecast will depend on the quality of the political risk analysis that in turn is influenced by aspects such as the methodology and the quality of the data used. For political risk analysis to be valid and to gain scientific recognition, Simon (1984:124) argues that the procedures followed should be done in a systematic way using models that are reliable. There are many models available for political risk analysis, but methodological problems can be encountered as some models are quantitative and others are qualitative in nature. It is therefore important to consider the attributes of qualitative and quantitative methods of political risk analysis.

The main advantage of a qualitative approach is that such an approach looks at the political situation and risk factors in context. A specific situation can be analysed in context and a problem-solving assessment can be applied. For example scenario analysis will help the business firm to work towards a specific solution to the specific problem that the firm faces (Bremmer & Keat, 2009:24). A wider range of information would be gathered on the specific situation that might not be included in a quantitative
model (Frei & Ruloff, 1988:6). However, promoters of quantitative approaches argue that qualitative analysis could be too subjective (Brewer, 1981:9). On the other hand, Frei and Ruloff (1988:7, 9) argue that subjectivity is also a limitation in quantitative methods, as quantitative methods are still based on assumptions and judgments made by analysts. For Brink (2004:21), the quantitative model has the advantage of providing a calculated result in numerical terms for political risk, and therefore it can be used effectively in the management of the political risk. Furthermore, a quantitative approach can enhance the ability to compare political risk assessments (Brink, 2004:21). An investor can evaluate two investments on the basis of the same models and come to a conclusion as to which investment is the best. However, Brewer (1981:8) warns that caution should be taken not to totally disregard context and extrapolate historical situations to the future. Brewer (1981:8) uses the example of the Iranian war where the past stability of an authoritarian regime did not mean that the future would be stable. Brewer (1981:9) further points out that the fact that the analysis is quantitative does not mean that the political risk analysis can be successfully incorporated with financial risk in the overall investment risk. Bremmer and Keat (2009:5, 9) also emphasise that political risk is hard to quantify because of the complexity and interrelationship of the sources of political risk events. They use the example of the difficulty in calculating the cumulative losses incurred as a result of the 9/11 terrorists attack in the US (Bremmer & Keat, 2009:23). Hough (2008:11) makes the point that numerical risk analysis is of no value without being complemented by qualitative assessments and proper explanations of the conclusion of the analyst.

Brink (2004:40) emphasises other problems with regards to the methodology used in political risk models, such as the fact that political risk factors from different levels of analysis are included in the same model. Brink (2004:40) warns against ecological and individualistic fallacies. Ecological fallacies refer to the mistake made to apply broad data on the ecological level to individual cases that can lead to false assumptions about a specific case. The individualistic fallacy on the other hand refers to the mistake to apply an observation that was done on an individual level incorrectly to the generalised level. A political risk indicator that implies a high risk for a certain business project will not necessarily be a high risk for other projects (Brink, 2004:40). To contribute to the objectiveness of the political risk analysis, an objective analytical framework should be used that is developed in accordance with a theoretical grounding (Robock, 1971:6; Kobrin, 1979:68). Kobrin (1978:120) argues that the use of mathematical models does not necessarily contribute to objectivity. Objectivity is rather reached by a better understanding of the political process and the operations of the firm. For example, Bremmer and Keat (2009:2) argue that the power dynamics of Chinese politics cannot be understood or studied in the same way as Saudi Arabia where politics is predominantly a family matter. Frei and Ruloff (1988:6) suggest that the qualitative methods should not be abandoned, but that they could be used in conjunction with quantitative methods because of the importance of context. Even in Brink’s (2004) model that seems quantitative, the mixed method approach is used.

The aim of the study is not to develop a specific political risk model for Chinese companies operating in Africa, but rather to identify and explore important political risk factors that may influence their political risk exposure. These factors could be incorporated in a political risk model and considered in a political risk analysis. An approach will be followed in line with scholars from the micro analysis school of thought such as Baas (2010), Alon and Herbert (2009) and Boshoff (2010) that differentiate between macro and micro political risk factors. The model developed by Baas (2010) proposes a country level analysis and an industry-project analysis for specific political risks identified. Alon and Herbert’s (2009) micro political risk model considers factors from internal sources, external sources and firm-related factors. Their model should be used in conjunction with a macro political risk model. Boshoff’s (2010) industry-specific political risk model for the oil and gas industry follows a two-stage analysis where host country political risk factors, including political, economic, societal and petroleum factors, are considered in the first stage, and company and international political risk factors in the second stage. As this paper focuses on all
investments in Africa by Chinese companies and not on a specific industry, the factors considered are limited to host country political risk factors and company-specific political risk factors.

2. POLITICAL RISK FACTORS

2.1 HOST COUNTRY POLITICAL RISK FACTORS

Chinese corporations have investments and operations in most African countries in different industries such as banking, oil and other mining activities, construction and tele-communication. With 54 countries that vary in terms of political and economic development, history and culture, Africa is not a homogenous continent. Chinese businesses may therefore be exposed to different levels of political risk in different countries. However, there are some features that may be present in different degrees that shape the economic, social and political landscape of many African countries and could contribute to higher political risk levels. Although most African economies had positive real growth rates over the last decade (African Economic Outlook, 2013), the economies of many African countries are still underdeveloped and characterised by a weak private sector and heavy reliance on natural resources (Wombolt & Mattout, 2012; Games, 2011). Further, despite a growing middle class, many African societies suffer from extreme poverty and poor social development and education levels. Although most African countries seem to have – in principle – accepted multi-party politics, the political landscape of many countries is still shaped by political instability, corruption and weak state institutions, as well as political violence (Kuo, 2012a; Shen, 2013; Games, 2011; Saferworld, 2011). Political risk factors to consider include economic development, social development, corruption, political instability and political violence.

ECONOMIC DEVELOPMENT

Economic growth is an important indicator of economic activity in a country, but growth without economic development, for example through economic diversification in conjunction with employment growth and infrastructure development, may indicate inadequate government measures for wealth distribution. The lack of economic development may also result in an unstable local currency, balance of payments and trade deficits and high inflation, making the cost of living high, which in turn may have political consequences for internal or social instability (Alon & Herbert, 2009:134). When the population of a country does not share in the benefits of economic growth and material living conditions do not improve, dissatisfaction with their situation may contribute to political grievances that may ultimately result in political instability or violence, increasing the political risk for foreign firms operating in the country. Further, in countries where the domestic tax base is limited, foreign companies may be specifically targeted to fill the government revenue gap. Currency instability may further affect the cost structure of a firm and consequently its profitability (Alon & Herbert, 2009:134).

Most African countries, especially resource rich countries, experienced economic growth since the mid-1990s as macroeconomic policies improved, debts reduced and countries increasingly received investments and foreign aid (Punam, Christiansen, Angwafo, Buitano, Dennis, Korman, Sanoh & Ye, 2013:13). As the structure of many African economies is based on exporting raw materials, the growing interest in Africa’s natural resources and high commodity prices allowed countries to become integrated into the world economy (Cheung, De Haan, Qian & Yu, 2012). However, despite the growing African consumer market and increased levels of agricultural activity, the continent’s economic growth is still led by natural resources (Economic Intelligence Unit (EIU), 2012). An overdependence on resource income in many countries, for example Angola, Nigeria, Zambia and Sudan, make these economies extremely vulnerable to price changes in one commodity, shocks in the world economy, and domestic insecurities (Punam et al, 2013:14; Aon, 2013). For example, Sudan’s extreme dependence on oil revenue meant that the country lost a significant part of its income since South Sudan’s secession in 2011, as most of the oil fields are on South Sudanese territory. Without foreign currency and government revenue, the
government austerity measures and grievances of hyperinflation and high fuel prices led to political protests in Khartoum and other Sudanese regions during June and July 2012 (Reeves, 2012).

Despite economic growth, many African economies are characterised by poor economic development with high inequality and unemployment rates, food insecurity and inadequate transport and power infrastructure development (Punam et al, 2013:5,6; Aon, 2013). China may play a role in Africa’s economic development through investment, trade and infrastructure development, but as Punam et al (2013:9) mention, overdependence on China’s demand for its natural resources may make some African countries vulnerable to a downturn in China's economy, not unlike the effects of fragile economic conditions in the Eurozone and the US. If investments in Africa do not contribute to economic development that benefit the population of a country, investors may face increased levels of political risk.

**SOCIAL DEVELOPMENT**

The development of human resources remains one of the main challenges in Africa. Although economic growth in most African countries contributed to human development growth over the last few decades, many countries continue to lag behind the rest of the world. According to the Human Development Report (2013) sub-Saharan countries have the lowest human development levels in the world, 34 African countries are classified as low human development levels and only a few countries, such as Mauritius, Libya and Algeria, have high levels of human development. In countries with low human development levels, investors may be at risk of skills shortages in their labour force, which is likely to impact negatively on productivity. This may especially be the case in countries where African governments try to promote the transfer of skills by foreign investors by pressurising investors to employ local people (Games, 2011). Further, economic growth in many African countries contributed to rapid urbanisation, in many cases without proper planning (EIU, 2012). Inadequate social development, for example in terms of access to proper housing, health and transport facilities, may spur social unrest and political opposition against inefficient governments.

**POLITICAL INSTABILITY**

Political instability may expose business firms to the risk of decisions made by new governments or new factions within the government, which might impact the firm’s ability to continue its operations or influence its profitability. African countries progressed over the last few decades in terms of multi-party systems and more or less competitive elections, but governments are not necessarily stable and efficient (EIU, 2012). Authoritarianism was challenged in North Africa since the 2011 Arab Spring and recent coups, for example in Niger, Mali and Central African Republic, as well as attempted, but failed, coups, for example in Madagascar, Democratic Republic of Congo (DRC) and Ivory Coast demonstrated the discontentment with governments. However, new governments in these countries are not necessarily stable and may face challenges in creating effective and efficient political and economic institutions (Aon, 2013). Business firms therefore may face risks such as uncertain legal and regulatory systems, new contract specifications, sovereign debt problems or political interference (Aon, 2013).

**CORRUPTION AND WEAK STATE INSTITUTIONS**

Despite efforts in a number of countries and in the African Union (AU) to eliminate corruption, government corruption remains a major problem in many African countries, where the patronage system is integrated into weak state institutions and a large proportion of economic activity takes place in the informal sector (Wombolt & Mattout 2012). As Lacher (2012:7,20) argues, the system of clientelism impedes the development of effective state structures, which in turn creates an uncertain business environment. Without strong institutions, company representatives have to rely on individuals in the clientelist system for certain decisions to be taken. This may become a problem for business when new officials, especially on minister level are appointed in new governments (Games, 2011). Also, in countries with a weak tax system, foreign companies may be at risk of ad hoc treatment (Aon, 2013). Further,
unreliable legal systems may put firms at risk of contract violations, changes in laws (including some attempts to change legislation in retrospect) and regulations and uncertain property rights (Games, 2011; Aon, 2013).

Although there is the perception that Chinese firms’ business practices are not concerned with corruption to the same degree as their Western counterparts, Shen’s (2013) study shows that for business planning, Chinese investors prefer to have consistency in policies and clarity of laws and regulations. Chinese firms are also pressurised by the Chinese government with broad legislation that criminalise bribery of officials from foreign governments and international organisations (Matisoff, 2012; Wombolt & Mattout, 2012). Chinese companies can therefore not ignore the risk that corruption in African countries pose on their business activities.

**POLITICAL VIOLENCE**

Political violence in Africa, whether in the form of international war, internal conflict, post-conflict situations, political uprisings, social unrest, violent state actions or terrorism, is an increasing concern for Chinese business operations, especially put into the limelight of attention by the major evacuation effort of Chinese nationals during the Libyan crisis in 2011. Besides the costs of the evacuation, Chinese companies in Libya incurred losses in terms of the disruption of employment, operations and trade, attacks and looting of the construction sites, compensation claims and re-employment of returned workers (Belligoli, 2012; Zhang & Wei, 2012). Other recent examples of political violence in Africa include terrorist activities in Algeria, where a natural gas plant was attacked in January 2013 and foreign workers were taken hostage, as well as a coup in Mali, followed by the French military deployment (Aon, 2013). Violent conflict between Sudanese and South Sudanese armies in 2012 forced oil companies operating in Sudan to discontinue their operations (United Nations Security Council (UNSC), 2012:4). In Central African Republic political violence continues to threaten the lives of civilians after a coup by the Seleka rebel alliance (Reliefweb, 2013). Nigeria also suffers from outbreaks of political violence, ethnic tensions, Islamic militant insurgency by Boko Haram and terrorist attacks undermine the security situation in the country (Aon, 2013; Control Risks, 2013).

Apart from the ongoing conflict, many African states are in post-conflict situations, where security remains a concern. In a post-conflict environment, state and political institutions are often weak and unable to incorporate former rebels into the state security forces. This unemployment of soldiers and the proliferation of arms may create security concerns such as crime, banditry and extremist activities (Games, 2011; Aon, 2013).

Kuo (2012a) argues that although African security is not one of Beijing’s major concerns, increased Chinese investment on the continent also increased Chinese exposure to African insecurity. China is therefore not in a position to ignore the African security situation. As part of the non-interference policy, China originally had the approach of contributing to African peace and security through economic development of post-conflict countries, rather than getting involved in political missions. However, Saferworld (2011) and Belligoli (2012) argue that although economic assistance is important, it should not be seen as an alternative for working directly with the conflict and China should get more involved in conflict resolution, as economic, social and political stability are all linked. While China’s official foreign policy is still one of non-interference in the politics of African countries, Beijing is increasingly engaged in diplomatic relations and peacekeeping missions, in the form of financial support and personnel contributions (Kuo, 2012a; International Crisis Group (ICG), 2009). According to Saferworld (2011) China is the largest contributor of troops amongst the five permanent members of the UNSC, and the majority of its troops are stationed in Africa as military observers, civilian policy, infrastructure, and medical and logistical support units. However, as ICG (2009) argues, there is a lot of scope for more engagement as China has the capacity in terms of uniformed personnel to make a huge contribution.
2.2 COMPANY-SPECIFIC POLITICAL RISK FACTORS

Chinese firms operating in Africa may be exposed to host country political risk factors, but there are some micro political risk factors that may influence the way in which Chinese firms are affected by political events in the host country such as war or regime change. As argued by Alon and Herbert (2009), Kobrin (1979) and Frynas and Mellahi (2003), political risk is company or project specific. However, Chinese companies operating in Africa are not a homogenous group. Chinese firms not only operate in different African industries, but they also differ in size, in shareholding, management styles and in the level of international integration – and are competing with each other in many instances. Factors that may influence their political risk exposure in Africa may include: size, ownership and relationship of the firm with the home government; firm resources such as capital, experience and technical expertise; political behaviour of the firm; the degree of economic dependence on the firm or the home country; reputation of the company in terms of company culture, corporate social responsibility (CSR), environmental concerns and labour issues; and home-host country government relations.

SIZE, OWNERSHIP AND RELATIONSHIP WITH HOME GOVERNMENT

The size of a company in terms of assets, the company’s degree of internationalisation and whether the company is privately or state-owned may impact on an enterprise’s political risk exposure (Al Kattab et al, 2007). For example, large firms may be a target for host countries in terms of ad hoc taxes or tariffs. On the other hand, large firms may be more able than small firms to invest in business opportunities with higher risk, as they can afford initial losses. Large firms may also be more diversified and less dependent on the host country’s market or supplies. Alon and Herbert (2009:134) argue that a firm’s dependence on the market of the host country decreases its bargaining power relative to the host country government, raising the risk of adverse government regulation. On the other hand, a host country government has less power over the global activities of diversified firms with alternative sources of revenue (Alon & Herbert, 2009:135). While many Chinese companies in different industries operate in Africa, Chinese state-owned enterprises (SOEs) mostly focus on large projects in the natural resource and infrastructure sectors, medium sized privately owned Chinese companies generally invest in the manufacturing, telecommunication and wholesale trade sectors, and small private Chinese firms mostly own manufacturing and retail enterprises (Kaplinsky & Morris, 2009; Sanfilippo, 2010).

China’s ”going out” policy encouraged SOEs since 2002 to invest strategically abroad in natural resources, new markets and new technologies and to create globally competitive multinationals to facilitate Chinese integration into the world economic order (Deng, 2009:76). In some cases, Africa served as a training ground for companies to gain experience in operating on the global stage, for example the investment in the Chambishi copper mines in Zambia at a time when the mines were judged unprofitable (Crabtree, 2008). The internationalisation of Chinese SOEs was promoted and secured them state support with the relaxation of foreign currency controls, subsidies and favourable financing through the state-owned financial institutions such as Export-Import Bank of China (China Exim Bank) and the China Development Bank (CDB) (Moreira, 2013). As part of the process of transforming the Chinese SOEs into integrated modern market-oriented multinational corporations (MNCs), the corporations or their subsidiaries were listed on the world’s stock exchanges in order to improve their efficiency and profitability (Liou, 2009:675). Although these companies are listed, the majority of their shares are still held by the state (Deng, 2007:73). The State Asset Supervision and Administrative Commission (SASAC) has authority over the management of overseas assets of the top 50 Chinese SOEs in strategic sectors that is crucial for China’s national economy and security, such as oil, defence, power and telecommunication (Matisoff, 2012; Van der Lugt & Hamblin, 2011:38). It should however be taken into account that China is no longer a monolithic block that dictates the investment decisions of SOEs, because apart from SASAC, various state institutions such as the Ministry of Commerce (MOFCOM) and the Ministry of
Foreign Affairs (MFA) are involved in (and compete with each other over) the management and regulation of Chinese FDI (Jiang, 2009:603; Corkin, 2011:67).

Liou (2009:683) argues that this bureaucratic fragmentation has weakened the central state’s control over the corporations’ decisions because of the conflicting goals of the bureaucratic institutions. Jiang (2009:603) and Liou (2009:673) argue that the relationship between the Chinese state and the SOEs has changed with economic reforms and SOE managers have become more profit-oriented in their investment decision-making abroad. However, Shambaugh (2012) argues that Chinese firms still have a politicised nature as Communist Party members are often embedded within firm management, and although they can make decisions independent from the state, this may influence their motives. According to Morek, Yeung and Zhao (2008:347), these executive positions are often seen as a step in the political careers of the individuals. It is for this reason that Kolstad and Wigg (2009:6) suggest that alongside commercial objectives of profit-maximising, the investment decisions of Chinese SOEs also reflect political objectives such as the promotion of domestic development, regime survival, social stability, the support of Chinese foreign policy or host country development. It therefore seems that despite being market-oriented MNCs, decisions made by Chinese SOEs still somewhat reflect dual objectives, in other words, profit-maximising and political goals. The relationship of the company with the Chinese government and the support they get from Beijing may therefore influence their decision-making and attitude towards risk taking.

Private firms on the other hand are more independent from the government and they invest in Africa in search of better profit and business expansion opportunities (Kaplinsky & Morris, 2009). While large private firms also have the benefit that SOEs have of cheaper and longer-term finance and therefore have an advantage towards their Western counterparts, SOEs still have more government support than private firms (Kaplinsky & Morris, 2009). However, while this influence from government may be used as a tool by SOEs to mitigate risks, it is not necessarily an advantage in terms of reasonable decision-making. For example, in Shen’s (2013) study one of the SOEs in Nigeria could not make a business decision based on rational choice to leave the country after significant delays in construction and financial difficulties caused huge losses, as the project was based on a high-level government-to-government agreement.

**FIRM RESOURCES**

Frynas and Mellahi (2003) argue that a firm’s resources may give them a competitive advantage (or disadvantage) that may influence the way they are affected by political events in the host country. For example, firms with experience in operating in countries with political violence may develop efficient security measures in order to mitigate the effects of the political violence, giving them an advantage over competitors. Other firm resources include capital and technical expertise. For example, a firm with access to finance capital may be able to supply its own power or transport infrastructure in countries with weak government and state institutions and a lack of public services. Also, technical expertise that a firm may have may allow them to enter a niche market in a country despite an unstable government (Alon & Herbert, 2009:134). China National Petroleum Corporation (CNPC), for instance, had an advantage in the Sudanese oil industry because of their technical experience gained in China. CNPC originally focused on upstream activities in China and had experience in difficult exploration and production environments. Where other companies failed, CNPC discovered oil in the Melut Basin in Sudan because of special developed techniques to explore in passive rift and under-explored basins.

While their access to finance capital may give a competitive advantage for many Chinese firms, especially the SOEs and large private firms, Chinese firms may have a disadvantage because of a lack of experience and technical expertise in operations abroad. Chinese firms are latecomers as investors in Africa and lacked initial experience in overseas operations (Moreira, 2013). According to Shambaugh (2012), the majority of Chinese firms do not develop business plans and strategies when they expand their business operations abroad, and their business decisions are frequently changed. Shambaugh (2012) is of the
opinion that very few Chinese firms besides the large national oil corporations (NOCs) have the ability and experience to operate globally. One of the main shortcomings is the lack of knowledge about the legal and regulatory environment of foreign countries they operate in (Shambaugh, 2012), a situation that may increase their exposure to political risk. However, Moreira (2013) point out that in the oil and gas industry, Chinese firms have managed and mitigated this risk with a strategy of entering into joint ventures with governments and strategic investors. In Sudan for example, CNPC joined the Greater Nile Petroleum Operating Company (GNPOC) and Petrodar consortiums with Petronas from Malaysia, Oil and Natural Gas Corporation (ONGC) Videsh from India and Sudapet from Sudan as partners (Moreira, 2013). Moreira’s (2013) study further suggests that mergers and acquisitions are increasingly an investment strategy for Chinese NOCs to mitigate their risks of operating in a foreign country without experience. This has particularly been the case since their access to finance gave Chinese firms many buying opportunities after the 2008 financial crisis (Moreira, 2013). For example, with the acquisitions of Addax in 2009 by Sinopec, and Nexen in 2013 by China National Offshore Oil Corporation (CNOOC), the Chinese firms gained access to the West African oil industry where these firms were established and already had large presence (Moreira, 2013). Mergers and acquisitions are however not limited to the oil and gas industry, but may also mitigate the political risk exposure for Chinese firms in other industries. This was arguably the case with the acquisition of a 20 per cent stake in the South African Standard Bank by the Industrial and Commercial Bank of China (ICBC) in 2007. The transaction gave a Chinese enterprise access to the African banking sector with an established client base and experience in operating in the African political environment. In this way ICBC may gain experience and operate in Africa with less exposure to political risk than establishing a new business.

POLITICAL BEHAVIOUR OF THE FIRM

A business firm’s political behaviour may give the firm a competitive advantage and arbitrage and leverage options that may influence their exposure to political risks (Boddewyn & Brewer, 1994:126). Political behaviour may include dealings with governments, compliance with the rules of the government, partnership formation with the government or contributions to governments (Boddewyn & Brewer, 1994:128,130; Keillor, Wilkinson & Owens, 2005:629). During the process of internationalisation, CNPC’s political behaviour focused on developing good relations with political elites as a strategy to mitigate the impact of its exposure to political risk (Moreira, 2013). However, Moreira (2013) argues that this strategy is not always a reliable political risk management tool and may become a competitive disadvantage rather than an advantage when there is a change in the political elite, especially in an unstable political environment where state institutions are weak. Moreira (2013) refers to Libya as a case in point, where CNPC had a strong relationship with the Libyan government since 2002, but after the regime change in 2011 their investments were at risk because of mistrust by the new government. Members of the Libyan opposition against the regime of Muammar al-Qaddafi attacked Chinese workers and infrastructure projects, and The Great Wall Drilling Co, a subsidiary of CNPC, had to cancel several projects in 2011 (Moreira, 2013). Although legal contracts are honoured by the new government (Moreira, 2013), Control Risk (2013) argues that mistrust over companies’ previous relationships with the Qaddafi regime may pose continued reputation risk for international investors.

DEGREE OF ECONOMIC DEPENDENCE

The economic contribution of the firm to the host country may influence the firm’s exposure to political risk. For Brink (2004:181) this is especially the case with international firms operating in developing countries where the host government is dependent on the company for economic development in a crucial sector. This relationship gives the company some bargaining power that can be used to benefit the business or mitigate the effect of political risk (Brink, 2004:181). However, Jakobsen (2010:483) warns that the “obsolescing bargain mechanism” may increase a firms’ political risk exposure as a government may increase its leverage over the international firm once the firm has made large capital investments in
the host country, making it difficult for the firm to withdraw without severe losses (Jakobsen, 2010:483). With a gradual shift in the relative bargaining power of the firm, there can be a gradual shift of government intervention in the affairs of the international firm (Jakobsen, 2010:483). In this regard Alon and Herbert (2009:134) add that the host country may become less dependent on a company as the country acquires the skills on which the company previously had a monopoly, and this declining relative bargaining power may increase the company’s political risk exposure.

As Chinese investors are latecomers in Africa, the contribution of a specific Chinese firm or a group of Chinese firms to the economy of a country is often small relative to Western investors. However, with increased investments this situation may change. Also, because of its latecomer status, Chinese firms often had to invest in countries where there were untapped opportunities (Kolstadt & Wigg, 2009:9). Opportunities were often found in countries where Western enterprises did not invest because of politics, poor infrastructure or less profitable situations, such as the oil industry in Sudan and the copper industry in Zambia. In these countries, Chinese firms are important in terms of their contribution to the economy, irrespective of being latecomers. This bargaining power may be illustrated by CNPC’s position in South Sudan. CNPC got a foothold in the Sudanese oil industry during the 1990s when most of the Western firms left because of pressure from their home governments and the imposition of sanctions against Sudan, after allegations of human rights abuses by the Bashir government. After the secession of South Sudan from Sudan in 2011, CNPC found itself in the position of being the largest investor in the South Sudanese oil industry, the main revenue source of South Sudan, since 75 per cent of the Sudanese oil operations were situated within the borders of the new country. Independence for South Sudan also meant an end of sanctions against that part of Sudan. CNPC ran the risk of losing their contracts to operate in the country, as the new government had anti-Chinese sentiments because of CNPC’s and China’s close relations with Khartoum during the civil war. Yet, CNPC’s contracts were renewed. One of the main reasons was the size of CNPC’s investment and South Sudan’s dependence, not only on the oil industry, but also on CNPC as the largest investor.

Other than economic dependence on a company, the host country may also be in a situation of economic dependence on the home country of that enterprise in terms of foreign aid, loans, investments or trade. Alon and Herbert (2009:133) argue that this dependency on the home country may influence a firm’s relative bargaining power. As a rule of thumb: The more dependent the host country is on the home country, the lower the political risk exposure of the home country firm may be. China may contribute in different ways to African economies, not only in terms of investments and trade, but also by way of capital and aid in the form of non-conditional concessional loans from China’s state-owned banks. Concessional loans are medium and long-term, low interest rate credit extended by China Exim Bank under the designation of the Chinese government (Corkin, 2011:68). As a way of granting aid, China Exim Bank grants African countries concessional loans for development projects, with low interest rates and no conditions such as democracy, human rights or revenue transparency attached to the loans (ICG, 2012:8). Chinese firms benefit from this arrangement as the contracts for the development projects financed by these loans have to be awarded to Chinese contractors (Corkin, 2011:71). Often the repayment of the loans is secured by raw materials from the African country (Corkin 2011:71). In this way, Beijing may assist SOEs to increase their investment prospects in Africa and at the same time obliges the firms to maintain close relations with the State Council and China Exim Bank (Holstlag, 2011:4; Cissé, 2012:1). Yeung and Liu (2008, cited in Corkin, 2011:75) call this system “economic diplomacy”, where interstate economic relations are conducted through the activities of national firms. Apart from profit and economic motives, political and diplomatic goals are met through these activities (Yeung & Liu, 2008, cited in Corkin, 2011:75). This network of interdependence may mitigate the effects of political risks that Chinese firms are exposed to. Construction firms may get access to new African markets and business opportunities and their risk of non-payment is reduced by the guarantee from the Chinese bank that can
pay the Chinese contractor in China. This also reduces the risk of currency volatility or problems with the repatriation of funds (Moreira, 2013).

However, Wombolt and Mattout (2012) warn that this strategy of granting concessional loans for raw materials may expose Chinese firms to risks associated with too close connections with and dependence on government officials. They use the example of China Exim Bank that provided finance in 2008 to a copper mine and infrastructure projects in the DRC. Allegations in a parliamentary commission report of missing funds led to the restructuring of the deal, leaving the Chinese investors without any guarantee from the DRC government (Wombolt & Mattout, 2013). Further, although the Chinese investors were never implicated, the report was used in the presidential election campaign and reflected negatively on Chinese firms in general. Therefore, apart from the increased risks attached to the loans, this incident also influenced the public perception of Chinese firms and put the reputations of other Chinese firms at risk. Further, the access that African governments have to the Chinese loans may be used to the disadvantage of domestic firms such as banks, construction and resource extraction companies. This may contribute to reputational risk of Chinese firms because of possible anti-Chinese sentiment and pressure from local business.

**REPUTATIONAL RISK**

While African governments may welcome Chinese investments as a way of financing much needed development, the reputation of Chinese firms operating in Africa may influence their exposure to political risk. Gao (2009:107) argues that it is not only governments’ actions that may pose a political risk to firms, but other stakeholders can lobby to press governments to take action against international firms, such as labour unions, suppliers, competitors and non-governmental organisations (NGOs). In this regard the media may play a significant role in the reputational risk of firms where hostile publicity may affect public and government sentiments towards specific firms (Games, 2011). The reputation of Chinese firms may be influenced by firm culture, their approach to CSR, environmental concerns and labour issues.

One of the factors that Alon and Herbert (2009:133) identify that may influence a firm’s political risk exposure is the situation where the firm and host country culture are fundamentally different. They use the example of Taiwanese firms that have lower political risks in China than US firms because of their similar culture, despite the political tensions between their governments. Chinese firms therefore may be exposed to higher political risks in Africa because of cultural differences. Shambaugh (2012) argues that one of the weaknesses of Chinese MNCs is that they still have their own national corporate culture and business practices and therefore firms still have a public image of being Chinese firms, rather than being multinational. Chinese firms have the reputation that they are not multilingual, especially on management level, that interpersonal relationships are more important than institutional relationships, and that they do not have a culture of transparency and corporate governance (Shambaugh, 2012). This public image may be altered as Chinese firms increasingly use mergers and acquisitions as a way of investing abroad, rather than greenfield investment. However, Shambaugh (2012) points out that mergers with foreign firms may still lead to cultural clashes within the firm and can lead to further operational difficulties.

Apart from their cultural reputation, Chinese firms operating in Africa also have the reputation in many instances that they are not concerned with CSR, environmental issues and domestic labour practices. Alon and Herbert (2009:133) argue that discontent of citizens of the host country can be caused by factors such as environmental dumping or unethical behaviour. This discontent may lead to a negative public perception of the company with possible consequences of public reaction towards the company or political actions aimed at the company (Alon & Herbert, 2009:133). Although it seems that there are improvements in CSR in the policies of Chinese firms, Matisoff (2012) points out that the implementation of such policies are still a concern. For example, there are government institutes as well as departments within Chinese companies that study risks and corporate responsibility, but these institutes do not have decision-making powers, and their recommendations are not necessarily
implemented and integrated into the business operations (Matisoff, 2012). Matisoff’s (2012) study of CNPC’s CSR shows that the company lack in the areas of employing enough local workers, particularly in management positions, and their CSR strategy does not reflect international best practices with regards to environmental impact assessments, community involvement, public accountability and recognition of labour unions. The study finds that CNPC’s concept of CSR is not one of integrating CSR into business operations such as community involvement, but mainly focuses on compliance with laws and regulations, public relations and philanthropy (Matisoff, 2012). This reputation may expose Chinese firms to political risk, as community dissatisfaction, environmental concerns and poor labour practices may all lead to public protests and violence and Chinese firms may become targets in government actions. For example, bad publicity about Chinese labour practices in the Zambian copper industry played a huge role in the public debate around Chinese investments in this country, and this sentiment was used by Michael Sata during the 2011 Zambian presidential election (Lim, 2012). Further, in February 2013 the Zambian government cancelled the three licences held by a Chinese owned coal mine, Collum Coal Mining Industries, because of alleged labour rights abuses, in particular health and safety concerns, as well as a poor environmental record (BBC News, 2013).

Political agendas of activists may be targeted towards a specific firm, but may also be targeted towards a country, for example by embargoes or regulations, as Alon and Herbert (2009:133) argue. As there is a perception that Chinese firms are different from multinational firms, Chinese businesses have the risk of being lumped together with other Chinese firms, even if they act independently. Consequently, poor labour or environmental practices by a particular Chinese firm may also influence the reputation of other firms or put them under scrutiny. The association of a firm with a specific country may therefore influence its reputation and consequently its political risk exposure. Mergers or acquisitions where firms or consortiums have a large local ownership may mitigate this risk, as the view of the host country public and government may be influenced by the perception that the business benefits the local economy or citizens (Alon & Herbert, 2009:135).

HOME-HOST COUNTRY GOVERNMENT RELATIONS

Because an international business firm may be associated with its home country, the home-host country government relations may influence the firm’s political risk exposure (Alon & Herbert, 2009:133). If this relationship is strained, the firm runs the risk of discriminatory treatment by the host country government (Alon & Herbert, 2009:133). While this relationship may have a negative impact on the one hand, the influence of the home country on the other hand may reduce a firm’s political risk exposure through international treaties, concessions and pacts that can safeguard against some aspects of risk, for example by pressure from the home government to withhold aid (Sethi & Luther, 1986:63).

Chinese firms may therefore benefit from international treaties and diplomatic and economic relations between China and the African host country. Moreira (2013) argues that the Chinese government can use its diplomatic and economic influence to promote good relations between the host government and the Chinese investors. This may mitigate their exposure to unstable political environments in Africa. However, strained relations may on the other hand expose Chinese firms to adverse government action.

The expansion of China’s economic interest in Africa encouraged China to create a platform for African and Chinese policymakers to enhance their relations and develop economic co-operation and trade, the Forum on China-Africa Cooperation (FOCAC). The first FOCAC ministerial meeting took place in Beijing in 2000 (Gissé, 2012:1). During this first meeting Beijing offered African countries a unique economic, political and security package that included debt relief, peacekeeping, cheap loans, support in multilateral forums, military deals and South-South co-operation (Jacobs, 2011:29). Sino-African relations were strengthened further in 2006 with the publishing of the China Africa Policy paper, as well as having a full FOCAC III China-Africa heads of state or government summit in Beijing (Grimm, 2012:2). Gissé (2012:2) comments that FOCAC has played a major role in facilitating Chinese investments in Africa by
enhancing business relations between Chinese companies and African countries. In formal China-Africa relations and FOCAC policies, the principle of non-interference in the internal affairs of other countries is one of the principles that is declared to guide the Sino-African relations (FOCAC, 2000; MFA, 2006). This principle manifested in Beijing’s claim that its assistance to and economic dealings with African countries are free of political conditions such as human rights, good governance or democracy (Jacobs, 2011:30). Alden and Hughes (2009:572) argue that the policy of non-interference and non-conditionality has initially benefited Chinese investors over their Western counterparts to obtain access to African resources. For example, CNPC invested in Sudan at the time when the country had a civil war and Western firms left the country because of home government pressure and sanctions.

Despite the official doctrine, Kuo (2012b:3) remarks that it is not always possible for the Chinese government to uphold this policy in practice due to the extent of Chinese business interests in Africa, Western pressure and expectations by African countries. Alden and Hughes (2009:572) further explain that the Chinese government cannot remain indifferent to the politics of a host country because of the complex situation created by the diversity of Chinese actors involved in African investments. Barber and Xiao (2012:6) remark that “Chinese interests become ever more entrenched and consequently caught up in Africa’s domestic and regional politics” despite Chinese official rhetoric of “non-interference” in the internal affairs of other countries. Saferworld (2011) argues that China may have an indirect influence on the internal affairs of many African countries by way of diplomatic and economic relations as well as in military cooperation and arms trade. This may contribute to the association of China and Chinese firms with certain groups, usually the ruling elite (Saferworld, 2011). Although this may be an advantage for companies, this association may put these firms at risk in cases of conflict and subsequent regime change when former rebel groups or the opposition party come into power. For example, in Sudan, China’s government and Chinese firms were associated with the Khartoum regime during the civil war. Because of Chinese oil investments, the Khartoum government could finance and therefore prolong the war against the South. Because of the Southern perception of close co-operation between China and Khartoum, Chinese investments were at risk of being targeted by the South Sudanese government when South Sudan seceded from Sudan in 2011, and most of China’s investments fell into South Sudanese territory.

Somewhat consequently, the Chinese government is increasingly involved in diplomatic relations as well as peacekeeping missions in African countries, irrespective of China’s official policy still being one of non-interference. China’s engagement with peacekeeping missions may contribute to peace on the country, and its association with the AU may also add to China’s image in Africa as a responsible power sensitive to African security (Saferworld, 2011). This image of China as a responsible power and the association of Chinese firms with its home country may contribute to lower levels of reputational risk for the Chinese investors on the continent, provided that rebel groups do not explicitly target the AU and its institutions.

3. CONCLUSION

The nature of political risk is complex and multi-dimensional in an integrated world economy where MNCs from not only developed but also from developing countries, increasingly invest in operations situated in foreign countries. This is evident from the expansion of the presence of Chinese business operations on the African continent, where the political environment often exposes the firms to high political risk. Security and profitability objectives are becoming more relevant for Chinese firms as they operate in these high-risk regions, and political risk analysis is increasingly important as a way of assessing and addressing the issue of political risk. When assessing political risk in Africa, Chinese firms should firstly consider factors that may influence the African political environment, such as economic development, social development, political instability, corruption and political violence in the host country.
Company-specific factors may have a negative or positive impact on the exposure of Chinese firms to the host country political risk environment. Six aspects are particularly relevant in the consideration of political risks:

Firstly, the size, ownership and the relationship of the firm with the home government may influence a firm's bargaining power in a host country. Large and diversified firms generally have more bargaining power than small firms, and Chinese SOEs, especially those in strategic sectors, have more support from the Chinese government in terms of diplomacy and finance.

Secondly, company resources such as capital, experience and technical expertise may give a firm a competitive advantage over other firms, especially when the host country lacks in these areas. Chinese firms may lack experience in operating globally, but because of their access to capital, this deficiency may be overcome by the increased use of mergers and acquisitions as the mode of entry for business firms into foreign countries.

Thirdly, the political behaviour of firms such as partnership formation with the government may be beneficial to business operations. However, in politically unstable countries this may pose a risk to Chinese firms of being targeted or losing contracts in cases of regime change. Also, in countries with democratic systems, governments change periodically. Today’s opposition might be tomorrow’s government and the approach will have to be adequately adjusted.

Fourthly, the more the country is economically dependent on the firm or the home country, the more bargaining power the firm has and government intervention is less likely. African countries may become more and more economically dependent on China as China-African trade relations are growing and Chinese concessional loans become more relevant to African countries.

A fifth factor to be considered is the company’s reputational risk that may be influenced by company culture, its response to CSR, environmental concerns and labour issues. Chinese firms generally have the reputation of having a more top-heavy, very hierarchical business culture and not integrating CSR, environmental concerns and labour issues into their business operations. This reputation, if not successfully countered, may put Chinese firms at risk of being targeted in different ways by governments, the public and activist groups.

Lastly, because an international business firm may be associated with its home country, the home-host country government relations may influence the firm’s political risk exposure. Ultimately, reputation damage can be inflicted on all companies, relating to perceived nationality. While this association may have negative consequences for Chinese firms in some cases, China’s increasing involvement in African diplomatic relations, peacekeeping missions and association with the AU may add to China’s image in Africa as a responsible power sensitive to African security.
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