



# Risk Management of International Trade in the Context of BRI: A Case Study of DF Company in China

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**Abstract :** The study explores the intricate landscape of global commerce, focusing on the evolving challenges and opportunities in international business. The study centers on DF Company, a prominent Chinese engineering contracting firm, and analyzes its risk management practices in the context of the Belt and Road initiative. The Belt and Road strategy, with its goals of policy coordination, infrastructure connectivity, trade facilitation, currency circulation, and people-to-people bonds, presents both historical continuity and new opportunities for international trade. The research adopts a qualitative case study design, delving into DF Company's operations through interviews, document analysis, and direct observation. The findings reveal that DF Company faces multifaceted challenges in managing international trade risks, particularly in the areas of political, policy, social, technological, and cultural risks. The paper concludes with comprehensive recommendations for DF Company, emphasizing proactive risk management, political risk mitigation, adaptation to policy changes, addressing social risks, technological capability enhancement, cultural risk management, and safety measures in conflict-prone areas. These recommendations aim to strengthen DF Company's international trade risk management framework within the Belt and Road initiative.

**Keywords:** International Trade Risk Management; Belt and Road Initiative; DF Company; Case Study; Risk Mitigation Strategies

## I. Introduction

In the intricate tapestry of global commerce, the landscape of international business is continually evolving, marked by unprecedented opportunities and challenges. As organizations expand their operations across borders, the dynamic interplay of diverse cultures, regulatory frameworks, and economic landscapes introduces an inherent complexity that necessitates adept risk management strategies. Under the umbrella of the BRI, several opportunities for international trade development have arisen. The initiative enables increased infrastructure exports, particularly to economically underdeveloped countries along its route. Leveraging these facilitative conditions, China can stimulate the export of infrastructure-related materials and equipment, thereby solidifying the crucial role of infrastructure in international trade. There is a potential rise in heavy industry exports, as many countries along the route are positioned at the lower end of the industrial spectrum. China's competitive edge in cost-effective industrial capacity allows its machinery and production lines to contribute to the real economies of strategic partner countries, propelling industrialization and elevating China's heavy industry in international trade. BRI necessitates substantial capital investment for integral infrastructure development. The establishment of the Asian Infrastructure Investment Bank in October 2014 provides a channel for capital connectivity, significantly influencing China's international trade capital project landscape and promoting the internationalization of the Chinese yuan.

Despite the optimistic outlook, the surge in international trade facilitated by the BRI is not without risks. The evolving landscape of international trade risks manifests new characteristics. Firstly, there is an imbalanced trade structure, raising concerns about the sustainability of growth and necessitating strategic adjustments. Secondly, geopolitical instability along the route introduces political risks that can impact trade, with heightened political instability in certain regions posing a challenge to the smooth operation of international trade. Thirdly, economic transition challenges are evident in many countries along the route, leading to lower levels of marketization, which can pose hurdles for businesses engaging in international trade. Lastly, the lack of regulatory standardization presents challenges for financial institutions and enterprises involved in international trade, potentially disrupting international conventions and leading to instances of commercial fraud.

Given these challenges, effective risk management strategies are essential for companies engaging in international trade under the BRI framework. This study aims to explore and analyze the risk management practices of DF Company in China as a case study, offering insights into the broader context of international trade risks in the era of the BRI.

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## II. Literature Review

In navigating the complexities of international trade along BRI, scholars collectively underscore the multi-faceted nature of risks encompassing geopolitics, policies, society, technology, and culture. An effective risk management framework must holistically address these challenges to ensure the success and sustainability of international trade initiatives in the context of BRI.

Macro-level Risks:

At the macro level, BRI Initiative introduces various geopolitical and political risks. Scholars such as Smith (2018) highlight the political complexities in 'transition countries' along the route, where the clash between traditional political structures and Western democratic ideals often results in political instability and frequent regime changes. Political risks, including expropriation, exchange restrictions, war, and civil unrest, pose significant challenges to businesses operating in these regions<sup>[1]</sup>.

Furthermore, the works of Johnson et al.<sup>[2]</sup> emphasize the importance of understanding the geopolitical risks arising from the strategic instability in the Middle East, Central Asia, and South Asia, where many Belt and Road countries are situated. Geopolitical risks, if not effectively managed, can have profound implications for international trade.

Policy and Social Risks:

The literature suggests that emerging economies along BRI often undergo rapid social development and transformation, leading to dynamic policy changes<sup>[3]</sup>. Researchers point out that the risks associated with evolving policies, laws, regulations, and social democratization can significantly impact international trade operations<sup>[4]</sup>. The clash between traditional and modern societies introduces social risks, including social conflicts, jeopardizing stability and order<sup>[5]</sup>.

In the realm of social risks, scholars, such as Zhao<sup>[6]</sup>, categorize them into traditional social risks (natural disasters and incurable diseases) and modern social risks (ecological crises). Transition risks arising from societal transformations add a layer of complexity to the risk landscape.

Technological Risks:

As BRI Initiative propels advancements in technology and changes in production methods, scholars argue that businesses must navigate an array of technological risks<sup>[7]</sup>. These risks encompass imperfections in technology, challenges in research and development, and the implications of technological change<sup>[8]</sup>. The adherence to evolving engineering and technology standards along the route becomes crucial for international engineering contracting enterprises.

Cultural Risks:

The cultural dimension of risk management is underscored by the diverse religious and cultural differences present among countries along BRI. Literature highlights the inevitability of international businesses facing multicultural conflicts and competition. Understanding and addressing cultural differences and risks is essential for successful project management and international trade operations<sup>[9]</sup>.

## III. Research Methodology

1. Case Study Design:

The study will adopt a qualitative case study design, focusing on DF Company as the primary case. This approach allows for an in-depth exploration of the specific context, experiences, and practices of DF Company in managing international trade risks.

2. Data Collection:

Data will be collected through a combination of methods, including interviews, document analysis, and direct observation. Interviews will be conducted with key stakeholders within DF Company, including executives, department heads, and relevant personnel involved in international trade operations. Document analysis will involve a comprehensive review of DF Company's business reports and other relevant documents that provide insights into the company's international trade activities, challenges faced, and risk management strategies implemented. Direct observation includes on-site visits to DF Company's facilities, allowing researchers to observe firsthand the practical aspects of international trade operations and risk management practices.

3. Sampling:

Purposeful sampling will be employed to select key informants within DF Company who possess significant insights into the international trade operations and risk management practices. The sample will include representatives from different departments involved in the trade process.

4. Data Analysis:

Thematic analysis will be employed to identify recurring themes and patterns in the data. The qualitative data collected from interviews, documents, and observations will be systematically coded and analyzed to derive meaningful insights into DF Company's risk management strategies in international trade.

## IV. DF Company Overview

DF Company, sanctioned by the Provincial State-owned Assets Supervision and Administration Commission, stands as an internationally recognized engineering contracting firm that has achieved remarkable strides in its development through the integration of overseas institutions, international capital, and international engineering contracting operations. While specializing in international engineering contracting, the company adopts a diversified business approach, venturing into import-export trade and overseas real estate development. Renowned for its operational excellence, DF Company has consistently garnered accolades and possesses comprehensive capabilities in engineering investment, surveying, design, construction, and management. Over the years, the company has been the recipient of numerous prestigious awards, including the Luban Award for Chinese Construction Projects, Quality Engineering Award, and the "Zhan Tianyou Award."

DF Company boasts total assets amounting to 62.7 billion yuan, a workforce of 65,000 employees, and achieved a business revenue of 89.9 billion yuan in the year 2022. Its international trade operations recorded an impressive 6.866 billion US dollars (exports: 5.035 billion US dollars, imports: 1.831 billion US dollars). With a presence in 27 countries and regions across five continents, DF Company owns 96 business entities overseas. Among its subsidiaries, 389 are affiliated, and four are listed on the stock exchange (Figure 1).



Figure 1, Global business scope of DF company

In the period from 2015 to 2016, DF Company strategically established seven new foreign offices in countries along the BRI, cultivating new business growth points in Malaysia, South Africa, the United Arab Emirates, and Pakistan. This expansion focused on developing emerging markets along the BRI, gradually radiating from key regional countries such as the UAE, Malaysia, Pakistan, and Kyrgyzstan. This approach effectively wove a dense network of operations. DF Company's major projects in countries along the BRI are detailed in Table 1.

Project and Unit Project Name	Project Location	Structural Type
Country: Malaysia		
- Country Garden Malaysia Golden Bay Plot 4, Phase 2A	Malaysia	Frame-shear Structure
- Greenland Malaysia Emerald Bay Plot 4 Subsection Project	Malaysia	Frame-shear Structure
- Kuala Lumpur TWY Serviced Apartment Project	Kuala Lumpur, Malaysia	Frame-shear Structure
Country: Kyrgyzstan		
- Aid to Osh Hospital Project	Osh City, Kyrgyzstan	Framework
Country: United Arab Emirates (UAE)		
- Dubai Mall Project in Dubai, UAE	UAE	
Country: South Africa		
- Water Supply Project in Wokjama, South Africa	South Africa	83.74 km
Country: Pakistan		
- M4 Motorway Shorkot-Khanewal Section IIIA	Pakistan	

In response to the shifting global landscape, DF Company has strengthened its strategic cooperation along the "Belt and Road," instituting multi-tiered service cooperation platforms and exploring diverse operational models to foster sustained

growth in international engineering contracts. As part of its adaptive response to the rapid evolution of international engineering contracts, DF Company established the wholly-owned subsidiary, DF Import and Export Trading Co., Ltd., in 2015. With a registered capital of 30 million RMB, this subsidiary specializes in international trade, aiming to deliver a unified supply of raw materials, machinery, and various goods for overseas engineering contracts.

DF Import and Export Trading Co., Ltd., has fostered enduring partnerships with over ten suppliers across various industries, encompassing engineering machinery, tires, steel, cables, construction materials, and electronics. These products are exported to over ten countries, including Pakistan, Cameroon, Ghana, and South Africa. The primary products in DF Company's international trade portfolio include materials, equipment, and supplies essential for engineering projects, with the proportion of each product type delineated in Table 2.

Product	Export Proportion	Third-country Import Proportion
Machinery Equipment	8.60%	0%
Steel	18.20%	2.10%
Wood	9.80%	15.10%
Flooring	6.50%	12.80%
Decor	7%	5.50%
Hardware	13.40%	7.90%
Electronics	12.70%	11.20%
Chemicals	10.60%	4.40%
Other	13.20%	29%

In 2016, the total volume of DF Company's international trade reached 462.17 million RMB, with exports amounting to 242.18 million RMB and third-country imports totaling 218.79 million RMB. The market share of DF Company's international engineering contract imports and exports across major markets is presented in Table 3.

Market Region	Export Proportion	Third-country Import Proportion
Malaysian Market	10.80%	9.40%
South African Market	32.60%	30.70%
UAE Market	26.10%	20.50%
Pakistani Market	26.60%	28%
Other Markets	3.90%	11.40%

Analyzing the data underscores that DF Company's international trade predominantly involves machinery, steel, wood, flooring, decor, hardware, electronics, and chemicals. Noteworthy is the fact that all machinery equipment is domestically produced, while other products rely on exports and third-country imports. South Africa emerges as the largest market, followed by Pakistan, the United Arab Emirates, and Malaysia.

Amidst the ongoing phase of profound restructuring and adjustment within the prevailing economic landscape and international security framework, a majority of the nations collaborating along the 'Belt and Road' are economically underdeveloped, navigating through social reform and transition. Consequently, there exists widespread instability and contradictions concerning security and development. The international trade risks encountered by DF Company in its global trade operations are in a state of dynamic evolution.

At present, the international trade involving raw materials, machinery, and various supplies in DF Company's international engineering contracting process is predominantly overseen by the centralized procurement department, with its primary responsibilities delineated in Table 4.

Upon examination of the table, it becomes apparent that the primary responsibilities of DF Company's centralized procurement department do not encompass international trade risk management. The methods employed to address risks are often reactive, lacking a comprehensive system and mechanism for proactive risk prevention. While the import and export trading company, acting as a subsidiary, facilitates the smooth progression of international trade procurement, it falls short in preventing international trade risks. The company grapples with a lack of effective control over international trade risks at the strategic level, confronted by several unfavorable conditions. Internally, challenges include insufficient organizational systems and processes for international trade risk management, a shortage of international trade talent, weak awareness of risk prevention, decentralized procurement across projects impeding international trade risk management, and the absence of a comprehensive system for preventing international trade risk management. Externally, adverse conditions encompass hindrances in global economic integration, political and economic instability in 'Belt and Road' countries, the non-scalability of international trade operations, and a lack of price competitiveness.

Functional Department	Main Responsibilities

Centralized Procurement Department	1. Comprehensive procurement and transportation of group materials and equipment.
	2. Communicate with overseas offices, formulate annual, quarterly, and monthly centralized procurement plans, and organize the procurement tendering of bulk materials and equipment.
	3. Draft, sign, execute, and manage procurement contracts for materials and equipment.
	4. Collect, organize, and summarize market information on the supply (prices) of materials and equipment; establish and maintain a qualified supplier database.
	5. Cooperate with the Business Management Department and Overseas Market Development Department to handle inquiries for materials, equipment, and construction materials for bidding projects.
	6. Market survey in China for foreign owners, and the confirmation of the selection of building material samples.

## V. Analysis of DF Company's International Trade Risk Management

The management of international trade risks in DF Company's international engineering contracting process should initiate with risk identification and the compilation of a risk list. The challenges related to trade, specifically in the procurement and transportation of materials and equipment for international engineering contracting, are particularly pronounced. DF Company must proactively address these risks before, during, and after the fact. Primarily, the identification of existing risks is crucial, and currently, the predominant international trade risks are those emerging from the macro level, specifically under the context of the "One Belt, One Road" initiative.

### 5.1 Political Risks:

Most countries along the "Belt and Road" are economically underdeveloped, with some experiencing political instability. Political changes in these countries can lead to risks in international trade, such as expropriation, exchange restrictions, war, civil unrest, government defaults, and delayed payments. The international engineering contracting project, being a systematic endeavor, is significantly influenced by the political, economic, social, legal, and external environment of the host country. Notably, the strategic instability in the Middle East, Central Asia, and South Asia amplifies geopolitical risks.

### 5.2 Policy Risks:

Countries along the "Belt and Road" are often emerging economies undergoing rapid social development and transformation. Consequently, policy laws, regulations, management systems, industry rules, and trade regulations change swiftly. DF Company needs to closely monitor these changes when engaging in international trade. For instance, in 2016, certain countries along the route implemented new regulations on the entry of foreign goods into their markets, aiming to restrict foreign commodities' entry into their national markets. Technical trade protection measures can impede international trade, and DF Company must navigate these challenges with a keen understanding of evolving policies.

### 5.3 Social Risks:

Social risks can be categorized into traditional social risks, man-made risks, which further break down into modern social risks and transition risks. Numerous 'transition countries' along BRI exhibit insufficient institutional mechanisms and social instability due to ongoing social democratization. The contradictions between local traditional politics and Western "democratic" institutions in these transition countries have given rise to destabilizing factors, resulting in frequent regime changes. This volatile political situation poses significant risks to BRI strategy, impacting the social fabric and stability of countries along the route.

Traditional social risks mainly encompass natural disasters like earthquakes, landslides, and mudslides, as well as incurable diseases such as cancer and AIDS. Modern social risks arise from the complexities of modern society, including ecological crises. Additionally, the unique form of social risk arising from social transformation is the social transition risk.

### 5.4 Technological Risks:

Advancements in science and technology have brought about qualitative improvements in production and business activities, enhancing convenience but also introducing unprecedented risks. Technological risks, including imperfection, research and development, and application, require attention.

Countries along BRI, due to the higher standards posed by the initiative, necessitate enhanced technological capabilities in international engineering contracting enterprises. These enterprises, expanding internationally as part of BRI strategy, must navigate technical barriers and non-tariff trade obstacles, necessitating a comprehensive understanding of international trade technical standards.

### 5.5 Cultural Risks:

Countries along BRI face cultural risks arising from religious and cultural differences, impacting international trade. International engineering contracting enterprises, operating in a globalized context, inevitably encounter foreign competition and multicultural conflicts.

Successfully managing projects in the face of these cultural differences is crucial for any contractor. The ability to accurately recognize and identify cultural differences and risks, coupled with proactive strategies, enhances the resilience of enterprises against cultural risks. The geopolitical fragmentation and frequent armed conflicts in BRI regions, coupled with ethnic and religious complexities, present challenges to international engineering projects. Terrorism-prone areas in these regions further compound safety risks.

## VII. Recommendations

Based on the analysis of DF Company's international trade risk management, several key recommendations can be proposed:

- **Comprehensive Risk Identification and Compilation:** DF Company should establish a systematic approach to identify, assess, and compile a comprehensive list of international trade risks. This should encompass political, policy, social, technological, and cultural dimensions, considering the specific challenges within BRI context.
- **Proactive Risk Management:** Given the pronounced challenges in procurement and transportation of materials and equipment, DF Company needs to adopt a proactive stance in managing risks throughout the entire international engineering contracting process. This involves addressing risks before, during, and after project execution.
- **Adaptation to Policy Changes:** Rapid changes in policy laws, regulations, and trade rules necessitate a vigilant approach. DF Company should enhance its monitoring mechanisms to keep abreast of evolving policies, particularly those related to the entry of foreign goods into markets. This awareness is crucial for navigating technical trade protection measures effectively.
- **Addressing Social Risks:** DF Company should develop risk management strategies that specifically address social risks, including traditional, man-made, and modern risks. Understanding the social dynamics of transition countries is essential, and proactive measures should be in place to navigate challenges arising from frequent regime changes and social transformations.
- **Technological Capability Enhancement:** Recognizing the qualitative improvements and risks associated with advancements in science and technology, DF Company should invest in enhancing technological capabilities. This includes staying updated on international trade technical standards, overcoming technical barriers, and navigating non-tariff trade obstacles.
- **Cultural Risk Management:** In the face of cultural differences, DF Company should prioritize cross-cultural management strategies. This involves accurately recognizing and identifying cultural risks, actively adopting countermeasure strategies, and aligning international trade strategies with the cultural environments of host countries.
- **Safety Measures in Conflict-Prone Areas:** Given the geopolitical fragmentation and armed conflicts in Belt and Road regions, DF Company should implement robust safety measures for international engineering projects in these areas. This includes thorough risk assessments, contingency planning, and adherence to security protocols to ensure the safety of personnel and projects.

## VI. Conclusion

In conclusion, the study sheds light on the intricate challenges and opportunities inherent in global commerce, particularly within the expansive framework of BRI initiative. Drawing insights from DF Company's experiences, the research underscores the need for a comprehensive risk management framework that addresses geopolitics, policies, society, technology, and culture. While commending DF Company's proactive stance in international trade procurement, the study highlights areas for improvement within the centralized procurement department, emphasizing the importance of proactive risk prevention. The analysis of international trade risks, encompassing political, policy, social, technological, and cultural dimensions, serves as a guide for businesses navigating the complexities of BRI initiative. As DF Company navigates the evolving global economic and security landscape, addressing these challenges is imperative for fortifying resilience and contributing to the success of international trade initiatives.

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