Chapter 1 : International Expansion Risk Factors | Pinkerton

One risk of engaging in international business lies with exchange rates. This is not a factor when your business is all domestic, but when your buyer has another currency, you must protect yourself against losses due to exchange rate changes.

In this section, we review in detail the methodologies used by two of the foremost providers of risk ratings: Institutional Investor averages these ratings, providing greater weights to respondents with greater worldwide exposure and more sophisticated country analysis systems. Whenever a survey or expert panel is used to subjectively rate creditworthiness, it is hard to exactly define the parameters taken into account. In order to identify the factors that its survey participants have taken into consideration in the past, Institutional Investor asks them to rank the factors that they take into account in preparing country ratings. The results of this survey are listed in Table 1. Note that the bankers rank factors differently for different groups of countries and that rankings have changed over time within country groups. The ranking of factors affecting OECD country ratings appear to have been the most turbulent over the fifteen-year period. Five financial, thirteen political and six economic factors are used. Each factor is assigned a numerical rating within a specified range. The specified allowable range for each factor reflects the weight attributed to that factor. A higher score indicates lesser risk. Political risk assessment scores are based on subjective staff analysis of available information. Economic risk assessment scores are based upon objective analysis of quantitative data and financial risk assessment scores are based upon analysis of a mix of quantitative and qualitative information. Calculation of the three individual indices is simply a matter of summing up the point scores for each factor within each risk category. Note that the political risk measure points is given twice the weight of financial and economic risk 50 points each. ICRG, as well as many of the other providers, think of country risk as being composed of two primary components: Political risk is associated with a willingness to pay while financial and economic risk are associated with an ability to pay. The specific formulas for these calculations are as follows: The specific factors taken into account for each risk index are detailed in Table 2. ICRG also groups country composite scores into ordinal risk categories to facilitate quick interpretation and comparison of country scores. This categorization scheme is presented in Table 3. Although the factors taken into account by each group and the audience they seek to inform vary, there are significant similarities across the providers of these measures. Most of the providers transform widely used quantitative economic indicators in roughly the same manner. The important differences are found in the degree of and specific factors included in the qualitative component of the risk index measures. Tables 4 and 5 contrast the primary risk index products available from the indicated groups. Table 4 identifies the underlying analytical source i. Additionally, the index measure is categorized as ordinal or scalar and the data sources are classified. From this table it can be seen that most firms use a mix of qualitative and quantitative analysis. The extremes are represented by Bank of America World Information Services which is wholly based on quantitative information, and Institutional Investor which is wholly based on a survey of banking professionals. Note that surveys and staff analysis which strive for an overall recommendation are categorized as qualitative analysis on the basis that this form of recommendation takes many non-quantitative factors into account. At the same time, the analysts and experts certainly do take relevant quantitative factors into account, just not in a formulaic manner as is true for a purely quantitative index. Table 5 looks in more detail at the specific factors comprising each risk index. Moderately broad categories have been created to classify the many specific factors used by each group. This chart helps to identify the mix of quantitative and qualitative factors used by each group as well as the specific similarities and differences in the composition of the indices. The table reports the ratings in October The correlations are weaker for the other measures. There is a sharp correlation evident with the II credit risk measure. While the other risk measures exhibit similar patterns, the relation is not as sharp. Summary Data Analysis 3. For these countries, we have all five risk indices. We segment the countries into five groups: All countries, countries with equity markets, developed countries with equity markets, emerging countries with equity markets and countries without equity markets. Time-series graphs of the risk indices for each country are available through the country risk web site,.. Figure 2 presents time-series graphs of the equally weighted risk indices for three groups over the January July period: Developed with equity markets , emerging with equity markets and all other countries. The equally-weighted measures for the developed countries Panel A exhibit remarkably little variation through time. The ICRG financial and economic measure remain about the same throughout the sample, as does the II country credit rating. There is a small decline the ICRG political rating. The analysis for the emerging countries and all other countries Panels B and C is similar. Many of the other countries have similar economic characteristics to the emerging country sample. Generally, all of the risk rating measures increase over the sample. This is particularly evident over the to period. The cross-sectional behavior of the risk measures is explored in Figure 3. For the countries with equity returns and all countries with and without equity markets , we graph the January risk level against the change in the risk level up to July The panels analyze all five measures: There appears to be cross-sectional mean reversion in the risk measures. Those countries that began with a very low risk rating tend to improve. Those countries with a high rating have tended to deteriorate. This mean reversion is particularly evident for the financial and composite risk measures for countries with equity markets. There is also evidence that the political and economic risk exhibit the same type of behavior. The weakest evidence of cross-sectional mean reversion is found for the credit risk. Table 7 presents some summary statistics on the risk measures for the subset of countries with equity markets. Panel A presents the initial risk measure and the most current rating along with the average equity return, the standard deviation and the beta against the Morgan Stanley Capital International world market portfolio. There are a number of countries which show sharp improvement in the risk ratings. Similar improvements are evident for many of the other Latin American countries. In contrast, some developed markets have shown deterioration, for example, Switzerland dropped from an ICRG composite rating of Similar declines were found for Japan, the U. The second panel details the correlation of the various risk measures. Since the credit rating is only available on a semi-annual basis the correlations are presented based on semi-annual observations. The correlation measure is equally weighted across the different countries. The upper triangle of the matrix reports the correlation based on changes in rating and the lower triangle reports the correlation of the levels. The correlations are not as high as one might expect. The third panel documents the degree of predictability in the risk measures. The levels of the measures are very persistent. We report the average autocorrelations of the changes in the risk measures. The change in the II credit rating is the most predictable. The least predictable measure is the change in the political risk rating. The average autocorrelation is The final part of Table 7 provides a correlation analysis of the ratings with mean returns, volatility and beta. First examine the beta. This is exactly the opposite of what one would expect. The evidence suggests that the highest rated countries lowest financial, economic and credit risk have the highest betas. This is evident in Figure 4 which graphs the betas against the average risk measures. This positive relation is largely due to the fact that the emerging markets have very low betas with respect to the world market portfolio [see Harvey]. Also notable in this panel is the sharp negative correlation between volatility and the risk measures. This closely squares with intuition. The lowest highest rated countries have the highest lowest equity return volatility. This volatility is robust across all risk measures except for political risk. In emerging markets, there is a positive relation between the political risk and the volatility. We also investigate whether the ICRG ratings, given that they are made on a more timely basis, contain advance information regarding the II credit rating. These results are contained in Table 8. The t-ratio on the ICRG composite measure is 7. All coefficients are positive. There is little information here. Only one of the regressions, the financial risk, has a coefficient that is significantly different from zero. One way to analyze this relation is to form a portfolio strategy based on ratings changes. One version of this strategy is analyzed in Diamonte, Liew and Stevens They form two portfolios: Importantly, their strategy is ex post - rather than ex ante.

Chapter 2 : Examples of Companies Managing Political Risk | theinnatdunvilla.com

Economic risk can be mitigated by opting for international mutual funds because they provide instant diversification, often investing in a variety of countries, instruments, currencies, or international industries.

The ability of a firm to make a strategic decision in order to respond to the forces that are a source of risk. These forces also impact the competitiveness of a firm. Porter defines them as: This is caused by the assets and financial capital that aid in the day-to-day business operations. The breakdown of machineries, supply and demand of the resources and products, shortfall of the goods and services, lack of perfect logistic and inventory will lead to inefficiency of production. By controlling costs, unnecessary waste will be reduced, and the process improvement may enhance the lead-time, reduce variance and contribute to efficiency in globalization. The political actions and instability may make it difficult for companies to operate efficiently in these countries due to negative publicity and impact created by individuals in the top government. A new and hostile government may replace the friendly one, and hence expropriate foreign assets. The culture or the instability of a country may create risks that may make it difficult for multinational companies to operate safely, effectively, and efficiently. Solving one of these problems without all of the problems aggregate together will not be enough in mitigating the country risk. Lack of security in electronic transactions, the cost of developing new technology, and the fact that these new technology may fail, and when all of these are coupled with the outdated existing technology, the result may create a dangerous effect in doing business in the international arena. Air, water, and environmental pollution may affect the health of the citizens, and lead to public outcry of the citizens. These problems may also lead to damaging the reputation of the companies that do business in that area. This comes from the inability of a country to meet its financial obligations. The effect of exchange-rate and interest rate make it difficult to conduct international business. This area is affected by the currency exchange rate, government flexibility in allowing the firms to repatriate profits or funds outside the country. Most countries make it difficult for foreign firms to repatriate funds thus forcing these firms to invest its funds at a less optimal level. Such frustrating situations make it difficult to operate in these countries. Although the benefits in international business exceed the risks, firms should take a risk assessment of each country and to also include intellectual property, red tape and corruption, human resource restrictions, and ownership restrictions in the analysis, in order to consider all risks involved before venturing into any of the countries. Sidney Okolo is a professor, consultant, strategist, and Africa expert. He is affiliated to several universities, the Managing Director of International Business Associates, a management consulting firm, and also the CEO of Global Education Support, an education assistance program. Among other things, he engages in all aspects of learning, knowledge, organization and human change. His focus is on leadership, management, entrepreneurship, profit engineering, human potential, excellence, achievement, business strategy, research and development. Product management, change management, conflict management, athlete management, marketing, business development and operations. He works with clients to adapt to change due to change in factors of production, technology, goods and services. He engages clients in training, retraining, development, skills enhancement, association, behavior modification, ways of thinking, and attitude adjustment. In addition to his work in the United States, his focus is also on developing countries in the continent of Africa, their leadership, culture, economic and market structure, community planning and development, and his created four letter word, "PIES", which stands for:

Chapter 3 : What are the top global risks to doing business? | World Economic Forum

Economic risk can be, however, reduced by opting for international mutual funds for they proffer instantaneous diversification, time and again investing in various countries, currencies, instruments, or international industries.

Before expanding your company overseas, however, be aware of the additional risks of the foreign trade market. In general, the risks of conducting international business can be segmented into four main categories: Country Risk Weigh the benefits of your company doing business abroad against the potential pitfalls. Poor infrastructure such as roads, bridges and telecommunications networks can make it expensive to operate a business in another country. Economic conditions such as high unemployment or a largely unskilled labor force can be barriers to entry. Rogue nations may have untapped potential, but may also pose risks such as terrorism, internal conflict and civil unrest. Anti-foreign sentiment among citizens, workers and government officials may also make doing business abroad especially challenging. Other country risks include crime and corruption. Politicial Risk Determine the political climate of the country you hope to enter. An unstable or ineffective government will be unable to protect your business interests. Lack of a strong foreign trade policy means that your business will have to navigate through the nuances of allying with government officials who may fall from power. An incoming government may not be business-friendly, and may decide to increase tariffs or impose quotas. Video of the Day Brought to you by Techwalla Brought to you by Techwalla Regulatory Risk A sudden change in trade laws or a poor legal system exposes your business to regulatory risk. For example, a country without clearly defined intellectual property laws make it difficult for foreign software companies to protect their investments. Analyze the risk and rewards of making an investment in another country. The currencies of stable governments are less volatile than those of less-developed countries. Hedging strategies could mitigate some of the currency risk; however, your business is still at the mercy of the vagaries of the local currency market. Sudden changes in monetary policy will also affect currency rates. The ITA is one of many agencies within the U. Department of Commerce and is responsible for providing small- and medium-sized businesses with customs and trade facilitation support in foreign markets.

Chapter 4 : Economic risks types and definition

International Business Finance And Planning Analysis in the international business and financial planning process. Assessment Criteria increased market share, risk reduction through diversification, experience and new skills).

The main risks that are associated with businesses engaging in international finance include foreign exchange risk and political risk. These risks may sometimes make it difficult to maintain constant and reliable revenue. What Is Foreign Exchange Risk? When a domestic currency appreciates against a foreign currency , profit or returns earned in the foreign country will decrease after being exchanged back to the domestic currency. Due to the somewhat volatile nature of the exchange rate, it can be quite difficult to protect against this kind of risk, which can harm sales and revenues. For example, assume a U. If the Japanese yen depreciates against the U. What Is Political Risk? These policy changes can include such things as trade barriers, which serve to limit or prevent international trade. Some governments will request additional funds or tariffs in exchange for the right to export items into their country. Tariffs and quotas are used to protect domestic producers from foreign competition. This also can have a huge effect on the profits of an organization because it either cuts revenues from the result of a tax on exports or restricts the amount of revenues that can be earned. Although the amount of trade barriers have diminished due to free-trade agreements and other similar measures, the everyday differences in the laws of foreign countries can influence the profits and overall success of a company doing business transactions abroad. In general, organizations engaging in international finance activities can experience much greater uncertainty in their revenues. An unsteady and unpredictable stream of revenue can make it hard to operate a business effectively. Despite these negative exposures, international business can open up opportunities for reduced resource costs and larger lucrative markets. There are also ways in which a company can overcome some of these risk exposures. For example, a business may attempt to hedge some of its foreign-exchange risk by buying futures, forwards or options on the currency market. They also may decide to acquire political risk insurance in order to protect their equity investments and loans from specific government actions. What a company must decide is whether the pros outweigh the cons when deciding to venture into the international market.

Chapter 5 : Global Business: Risks in International Business

In general, the risks of conducting international business can be segmented into four main categories: country, political, regulatory and currency risk. Country Risk Weigh the benefits of your company doing business abroad against the potential pitfalls.

Risks Faced by International Businesses in Developing Countries Risks Faced by International Businesses in Developing Countries Political Instability The recent case involving GMR Group in Maldives wherein the new government cancelled the license of the company for the Male Airport illustrates the biggest risk that international businesses face when they operate in developing countries. It is often the case that the change in government leads to a reevaluation of the contracts with the result that some of them are scrapped. This kind of approach must be avoided as international businesses operate under the assumption that the contractual obligations that they have entered with a particular government have to be honored by subsequent governments. Added to this is the political instability in many developing countries like Nigeria where the continuous churn in the political landscape makes the operation of international businesses difficult. In other words, the policy paralysis and the bureaucratic logjam because of political instability pose the biggest risk to international businesses. Economic Risk The second category of risk that international businesses face is the prevailing economic structures in developing countries. For instance, many multinationals flocked to countries like Indonesia, Thailand, and Malaysia with great expectations. However, the Asian financial crisis of put paid to their economic activities because of the impact of the crisis on the economic structure of the country. Indeed, prudent economic management is the key aspect here. In these countries, due to the mismanagement of the economy, the economic crisis ensued and this led to capital flight from these countries. The key point here is that international businesses must be prepared to sudden changes in the economic situation in developing countries since the economies of these countries are not as deep and resilient like those in the West. Of course, the recent global economic crisis affected the resilience of the West as well but that is another topic altogether. Societal Risk The third type of risk is societal which is to with the prevailing social situation in the developing countries. Because a certain section of the populace has benefited from the international businesses, the other sections feel left out and marginalized and they resort to pressurizing the government to include them in the developmental process. As some authors have put it, the world is on fire because of ethnic hostility to the operations of the international businesses. This was the case in many countries in Africa and East Asia where the minorities who lost out from the opening up of their economies resorted to social unrest and societal pressure to jeopardize the operations of the international businesses. Moreover, this risk has metamorphosed into outright rejection of international businesses in many countries. The spree of nationalization and taking over the operations of international businesses in many countries across the world has made life difficult for international businesses in those countries. Closing Thoughts International businesses face many risks when they operate in developing countries and this article has discussed a few of those risks. The subsequent articles would go into detail about each of these risks. It would suffice to state here that astute management and business friendly policies are needed from the governments of the developing countries if they are to attract foreign capital.

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Chapter 6 : Political Risk Definition & Example | InvestingAnswers

Economic risk centers on macroeconomic circumstances that may result in significant loss for a business. These conditions include inflation, exchange rates, new government regulations and other decisions that may adversely affect profits.

Chinese Business Culture Political risk is the hazard that political decisions or events will have a negative effect on your business. Political risk primarily affects companies doing business in multiple countries, or operating in countries other than their own. Political risks can range from war and revolution to corruption and changes in tax laws. Managing political risk involves researching potential risks beforehand, taking steps to minimize risk and ensuring you have legal recourse. Takeover Risk Takeover, or nationalization, by a government can constitute a serious political risk, especially in countries where governments are not democratically elected or where there is an unstable political situation. For example, following the Cuban revolution, the Cuban government expropriated a large number of American businesses. Even in democracies, governments can decide to take over industries and companies. For example, in , the Dominican Republic expropriated bauxite belonging to U. In response, the company decided to stop operations in the Dominican Republic, to avoid losing even more money if the expropriations continued. Protest Risk Political protests by local groups can represent a political risk in a number of industries. One example of this occurred in Brazil in , when a consortium of foreign companies planning to construct a hydroelectric power plant was hit with large-scale protests from Brazilian environmental groups. The consortium, headed by U. By agreeing to spend more money, Alcoa managed to avoid large delays from protests. Royal Dutch Shell helps mitigate risks from environmental protests by consulting with Greenpeace on environmental issues in areas where it operates. Physical Risk Political risk can take the form of violence against employees, as in the oil-rich region of the Niger Delta in Nigeria. Local groups regularly launch attacks against company compounds and kidnap foreign oil workers, demanding that more oil revenue be spent in the local area. Oil companies operating in these areas, such as Shell Oil, often manage these risks by hiring security firms to protect workers, and by negotiating to create schools, hospitals and jobs for locals. Economic Risk Economic changes can also be a form of political risk for companies. In , telecommunications company Econet decided the unstable economy, high inflation and opaque government in Zimbabwe represented a considerable business risk. The company responded to this risk by diversifying and entering other African markets. In order to counter the very high inflation in Zimbabwe, the company sent some of its Zimbabwean technicians to work in the new countries where Econet was operating. This enabled the technicians to save money and allowed Econet to keep its best people.

Chapter 7 : Evaluating Country Risk For International Investing | Investopedia

Businesses that operate overseas face quite a range of economic risks. They risk exchange controls, which restrict the movement of capital into and out of the country, which makes it hard to remove profits from or make investments in the host country.

Many investors place a portion of their portfolios in foreign securities. However, investors often neglect an important first step in the process of international investing. Country risk refers to the economic, political and business risks that are unique to a specific country, and that might result in unexpected investment losses. This article will examine the concept of country risk and how it can be analyzed by investors. Economic and Political Risk Consider three main risk sources when investing in a foreign country: A country with stable finances and a stronger economy should provide more reliable investments than a country with weaker finances or an unsound economy. This risk refers to the political decisions made within a country that might result in an unanticipated loss to investors. This is the risk that a foreign central bank will alter its foreign exchange regulations, significantly reducing or nullifying the value of its foreign exchange contracts. Developed, Emerging and Frontier Markets There are three types of markets for international investments: Developed markets consist of the largest, most industrialized economies. Their economic systems are well developed. They are politically stable and the rule of law is well entrenched. Developed markets are usually considered the safest investment destinations, but their economic growth rates often trail those of countries in an earlier development stage. Investment analysis of developed markets usually concentrates on the current economic and market cycles. Political considerations are often less important. Emerging markets experience rapid industrialization and often demonstrate extremely high levels of economic growth. This strong economic growth can sometimes translate into investment returns that are superior to those available in developed markets. However, emerging markets are also riskier than developed markets. Many of the fastest-growing economies in the world, including China, India and Brazil, are considered emerging markets. Frontier markets represent "the next wave" of investment destinations. These markets are generally either smaller than traditional emerging markets, or are found in countries that place restrictions on the ability of foreigners to invest. Although frontier markets can be exceptionally risky and often suffer from low liquidity , they also offer the potential for above-average returns over time. Frontier markets are also not well correlated with other more traditional investment destinations, which means that they provide additional diversification benefits when held in a well-rounded investment portfolio. As with emerging markets, investors in frontier markets must pay careful attention to the political environment, as well as to economic and financial developments. Examples of frontier markets include Nigeria, Botswana and Kuwait. A country with a higher credit rating is considered a safer investment than a country with a lower credit rating. Examining the credit ratings of a country is an excellent way to begin analyzing a potential investment. Sources of Information on Country Risk There are many excellent sources of information on the economic and political climate of foreign countries. Many excellent weekly magazines also cover international economics and politics. The Economist is generally considered the standard-bearer among weekly publications. International editions of many foreign newspapers and magazines can also be found online. Reviewing locally produced news sources can sometimes provide a different perspective on the attractiveness of a country under consideration for investment. Both of these resources provide a broad overview of the economic, political, demographic and social climate of a country. Euromoney Country Risk Survey: The rating is given on a point scale, with a score of representing virtually zero risk. In general, the calculation of the ECR rankings is split between two overall factors: The qualitative factors are derived from experts who assess the political risk, structure and economic performance of the country. The quantitative factors are based on debt indicators, capital market access and credit ratings. These ratings cover over countries, with an emphasis on "emerging and highly indebted" markets. The rating analyzes factors similar to the ECR rating, such as economic and political risk, and provides a rating on a point scale; however, unlike the ECR rating, higher scores mean higher sovereign risk. A benefit of the EIU ratings is that they are updated on a monthly basis, so trends can be caught much earlier than other, less frequently updated methods. In addition, the EIU format offers investors more analysis and provides an outlook for the country, as well as two-year forecasts for several key variables. The uniqueness of this approach is appealing because it surveys people from companies that are at the ground level, lending and providing capital directly to these countries. In a sense, this adds a degree of credibility to the ratings because major international banks typically do a significant amount of due diligence before exposing themselves to certain countries. Similar to the other approaches, this rating is based on a scale of 0 to , with being virtually risk-free and zero being equivalent to certain default. Important Steps When Investing Overseas Once country analysis has been completed, several investment decisions need to be made. The first is to decide where to invest by choosing among several possible investment approaches, including investing in: A more limited portfolio focused on either emerging markets or developed markets A specific region, such as Europe or Latin America A specific country or countries Remember that diversification, a fundamental principle of domestic investing, is even more important when investing internationally. Choosing to invest an entire portfolio in a single country is not prudent. In a broadly diversified global portfolio, investments should be allocated among developed, emerging and perhaps frontier markets. Even in a more concentrated portfolio, investments should be spread among several countries to maximize diversification and minimize risk. After deciding where to invest, an investor must decide which investment vehicles to invest in. Investment options include sovereign debt , stocks or bonds of companies domiciled in the country s chosen, stocks or bonds of a U. When in doubt, it may make sense to start out by taking less risk. More risk can always be added to the portfolio later. In addition to thoroughly researching prospective investments, an international investor also needs to monitor his or her portfolio and adjust holdings as conditions dictate. As in the United States, economic conditions overseas are constantly evolving, and political situations abroad can change quickly, particularly in emerging or frontier markets. Situations that once seemed promising may no longer be so. And countries that once seemed too risky might now be viable investment candidates. The Bottom Line Overseas investing involves a careful analysis of the economic, political and business risks that might result in unexpected investment losses. This country risk analysis is a fundamental step in building and monitoring an international portfolio. Investors that use the many excellent information sources available to evaluate country risk will be better prepared when constructing their international portfolios. Trading Center Want to learn how to invest? Get a free 10 week email series that will teach you how to start investing. Delivered twice a week, straight to your inbox.

Chapter 8 : Risk Involved in an International Business | Bizfluent

Country risk refers to the economic, political and business risks that are unique to a specific country, and that might result in unexpected investment losses. This article will examine the.

However, the impact that global risks have on different stakeholders is still far from understood. The Global Risks Report , therefore, dedicates a section of its 11th edition to the analysis of the global risks of highest concern for doing business at the country level. It provides unique insight from the voice of the business community on the topic - a particularly important participant in the global risks landscape. Businesses are particularly vulnerable as internationalization increases their exposure to global risks. Business has gone global over recent decades and the globalization of trade and commerce has brought, along with opportunities such as production efficiency, many risks â€" from environmental to economic and political. Yet, making long-term investment decisions in an increasingly more complex and ambiguous environment is not an easy task, as the resilience of any individual business depends heavily on the resilience of its suppliers and purchasers, whose supply chains can span many countries. The responses of over 13, business executives from economies reveal patterns of concern at country and regional levels that can lead to initiatives to engage the private sector in partnering to build resilience to global risks. With unemployment and underemployment identified as the number one risk of highest concern for doing business in 41 economies - more than a fourth of the economies surveyed - the toll of this risk on the well-functioning of business is highlighted once again. Moreover, combined with energy price shocks, these two economic risks top the ranking in half of the economies. These are followed by the failure of national governance, asset bubbles, fiscal crises and cyberattacks. While some patterns emerge on a global scale, the analysis of the EOS data shows that the global risks of highest concern for doing business differ considerably from country to country. Economic risks dominate the responses from Europe, including the risk of fiscal crises which is among the top five risks of highest concern in 26 economies out of a total of Unemployment or underemployment tops the list in 12 countries, including five in Southern Europe where the crisis has had a particularly severe impact: Cyprus, Greece, Italy, Portugal and Spain. With high unemployment rates, the risk to business is large. Indeed, this reflects frictions in the labour market with skill mismatchs and skill gaps which impede the well-functioning of businesses as they cannot find the right type of employees. Moreover, unemployment tops the list in four Balkan countries where recent experience of this is particularly acute: Croatia, Montenegro and Serbia â€" where more than one worker in five is now unemployed â€" and Bosnia and Herzegovina. Interestingly, cyberattacks is the risk of highest concern in four countries in Europe: Estonia, Germany, the Netherlands and Switzerland. Cyberattacks is also the top concern in the United States, while executives in Canada are most concerned about energy price shocks. The risks of an asset bubble is featured in the top five risks in both countries. In Latin America and the Caribbean, the risk of failure of national governance is at the top of the concern in seven economies â€" followed by energy price shocks, number one risk in six economies, and unemployment and underemployment in five. Worldwide, the risk of failure of critical infrastructure is the top risk in two countries only, both in Latin America - Paraguay and Uruguay. Respondents from Central Asia, including Russia worry about fiscal crises which is the top-1 risk in Azerbaijan and Russia and is among the top-5 of highest concern in all the countries of the regions. It is followed by unmanageable inflation, mentioned among the top-5 in 6 out of the 7 economies considered in all countries except Armenia where the risk ranks number 8. Unemployment and underemployment as well as interstate conflicts also feature high on the list, especially in Armenia, Azerbaijan and Georgia. Environmental risks worry business leaders in East Asia and the Pacific, especially in the Philippines the top-1 risk is extreme weather events , New Zealand the top-1 risk is natural catastrophes and Vietnam the top-1 risk is man-made environmental catastrophes. Asset bubble is the risk of highest in 6 countries Cambodia, China, Myanmar, Hong Kong, Australia and Thailand , followed by cyberattacks in top-1 risk in 3 economies of the region Malaysia, Japan and Singapore. Energy price shock is among the top-5 risks in 12 economies. In South Asia, concerns include energy prices and failure of national governance which both feature among the top-5 risks in 4 out of the 6 economies covered in the region respectively in Pakistan, Sri Lanka, India and Bangladesh and in Bangladesh, Pakistan, Nepal and Sri Lanka. Fiscal crises, together with unemployment or underemployment and failure of climate-change adaptation are high on the list and are among the top-5 risk of highest concern in 3 economies. Executives in the Middle East and North Africa are also worried about energy prices, together with unemployment and fiscal crises. While each of the three risks are among the top five risks of highest concern for doing business in 10 out of the 14 economies of the region, energy price shock tops the ranking in nine economies. Terrorist attacks and interstate conflict are also a major concern. The relatively poor state of infrastructure is also of high concern as illustrated by the risk failure of critical infrastructure which is among the top five risks in 15 economies - despite not being the top concern in any country - and the risk of failure of urban planning considered among the top five risks in 12 countries. The identification of global risks of highest concern is a first step to taking adequate mitigation measures and to build resilient businesses. With the richness of the dataset on the risks of highest concern for doing business at the country-level, companies now have an additional tool to help them strengthen their resilience. Nevertheless, many risks can only be addressed through collaboration among public and private sector actors and there is a strong case for businesses to join in partnerships with the public sector. The Global Risks Report is available here.

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Chapter 9 : Political, Financial & Economic Risks in International Business | Your Business

INTERNATIONAL BUSINESS RISKBusiness risk implies the possibility of some unfavourable happening. It is the possibility of loss due to same uncertain future occurrence. Profit and growth rates in international business are higher but so are the attendant risk.

Share on Facebook As if there are not enough uncertainties being in business, risk factors are multiplied when you expand into international trade. Whether you are importing materials or exporting finished products, you will encounter new issues. Expanding your small business to the international arena is not difficult if you are aware of the steps involved. Political While most of the countries where you are likely to be doing business have stable governments, there are concerns that you will confront. All member nations of the World Trade Organization are committed to free trade, but protectionism is still a fact of life with some. Tariffs and quotas may place restrictions on your ability to trade. Import and export licenses, customs duties, and laws regulating currency control are requirements you must explore. You must also be mindful that each country where you do business has a different political and legal system. Theft of intellectual property and illegal knock-offs are facts of life, so be prepared. Financial One risk of engaging in international business lies with exchange rates. This is not a factor when your business is all domestic, but when your buyer has another currency, you must protect yourself against losses due to exchange rate changes. Foreign exchange markets are fairly stable, and, barring an international crisis, your risk is not great. Managing international transactions requires extra precautions about payments. If your buyer is abroad you must take steps to assure that you will be paid. Economic There are several economic issues that you must deal with when engaging in international operations. If you are importing materials or products, you must take extra precautions to insure timely delivery. Geography and economic conditions in the country you are dealing with are factors. Mountains and oceans create international barriers that you must work into your business plan. Economic instability may be an issue if your transactions involve businesses in third world nations. Even if they are politically stable, they may lack the infrastructure to provide a sound economic environment. Resources To asses the risks of engaging in business overseas, there are practical sources of information available to you. This information provides up-to-date evaluations of conditions in every country of the world. Check with your area Small Business Administration office to see when it will be conducting a workshop on the import-export business.