Political risk, economic risk essay sample

Economics

1. How do you assess political risk? What are its consequences? How can a firm manage political risk? What is micropolitical risk and how does it affect international business?

Political risk assessment can be done as simple as conducting an online research yourself, or by hiring experts and consultants familiar with the host country. They are able to inform the likelihood of political change and develop possible scenarios for future political conditions. Another form of assessing political risk can be assigning line managers in foreign subsidiaries or by having affiliates monitor local political activities. A firm can manage political risk by avoidance or withdrawal of current investments, or if they decide risk is worth the try, they do so through adaptation to the rules and policies established. They include: equity sharing – joint ventures, participative management, localization- transforming the firm to a national firm, development assistance- firm's involvement in infrastructure development.

Dependency and hedging are other means of risk reduction. Managers that use dependency will keep the subsidiary and host nation dependent on the parent corporation. Hedging will minimize losses by taking advantage of political risk insurance and local debt financing. Diversification is another way to manage political risk.

Micropolitical risk affects one industry or a few companies. Expropriation is an example, the host country of high risk might decide to take over a company's assets and give an inadequate compensation. Such risk results in significant loss.

2. What is meant by economic risk in a nation? How can economic risk be analyzed and managed?

The book defines economic risk as a country's ability or intention to meet its financial obligations. The level of economic stability in a country is related to the risk it poses to foreign companies. More developed nations pose little risk, while less developed nations are riskier. Changes in exchange rates, government regulation, or political stability will significantly affect a country's economic risk. Economic risk can be analyzed through quantitative approach, qualitative approach, a mix of both, and checklist approach. Most companies use a combination of approaches to get a more accurate analysis. Managers need to constantly monitor and reassess the level of risk they face, especially in countries that are more prone to economic and political instability.

3. Discuss the importance of contracts in international management. What steps must a manager take to ensure a valid and enforceable contract? It is very important that companies doing business abroad have an agreement and establish rules through a contract. Because the laws and regulations in each country is very different and complex, a contract is of extreme importance to deal with future disputes and set the tone on how transactions are made, what is accepted and what is not. In some countries, a contract works as good as any piece of paper, with no validation. A wise manager will seek experts' advice in international law, analyze the differences in the regulatory system, and make sure a contract will be enforced in that particular country.