

Caspian sea case study examples

[Business](#), [Company](#)



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Question one

Political risk is the changes regarding the political situation of a place that may largely affect the outcome of business activities in the particular political environment. Investments that require high capital are more vulnerable to political risk while those with low capital requirement are less likely to be affected by the political environment. For instance, companies that intend to explore oil reserves in the Caspian Sea are expected to draw a budget of billions in US dollars. They are approximated to commit capital between a worthy range of 8 billion dollars and 10 billion dollars in exchange for a productivity of four barrels of oil. The high returns from high capital investment lead to the influence of politics as compared to those with smaller capital requirement.

Politically vulnerable investments are characterized to take place over a long period of time and them known to be geographically immobile. The oil and natural gas are long-lived investments and hence their exposure to the political risk. Those investments that are less vulnerable to political risk do not require a lot of time but they are invested within a short run term. The less vulnerable investments are also mainly geographically mobile. The

companies that plan to explore the oil and natural gas in the Caspian Sea are projected to make their investment over a long period of up to thirty years. More politically vulnerable investments are also associated with a high value to the host nation while those with less vulnerability are characterized with lesser value to the host country. The oil reserves in the Caspian Sea are of a greater value to the Azerbaijan nation.

Placing vulnerability on a scale of one to ten, politically more vulnerable investments can be on a scale of 6-10 depending on the extent of the political risk involved and the country. Those that are politically less vulnerable can be placed on a scale of 5-10 also taking into consideration the depth of the political extensiveness.

Question Two

All the pipeline routes are characterized with the risk of inter nation conflicts that have lacked the capability of their neighbors being in a position to solve the conflicts. The routes through China are characterized by the least political risk when compared to the other possible routes even with the Xinjiang that faces the Uighur separatists. The route is open to a bigger market (China) though it is long hence likely to be very expensive for the oil companies intending to use it. The route through Iran offers the best possible pipeline route solution but it however faces the sanction from the United States of America giving way for the China pipeline as the best ideal pipeline route. The pipeline route through Afghanistan, from Turkmenistan to Pakistan has the largest political risk. Afghanistan is a nation that has faced a lot of political unrest in the recent times and hence any pipeline route through the country would imply a major and greater political risk. The country has had

civil war within its borders over the recent years creating a condition of political tension.

Question Three

Businesses operating within the local economies are in a position to take advantage of the oil and natural gas business in the Caspian Sea. Such businesses will less likely feel the negative impact that comes with the geopolitical struggle of the major nations. This is simply because they serve the local Azerbaijan which is politically stable. However, considering the current situation in the Caspian Sea, there is no immediate course of action that the international businesses can take to protect their ventures in oil and natural gas. In fact the best way which the international businesses can pursue to manage this economical misfortune is through making individual stands and decisions.

Arguing from the point that the international businesses can operate locally, it would be prudent for them to take local measures. The measures are geared towards serving the local market however how relatively it maybe appear small if many companies are involved. The international businesses would consider utilization of the local labor as well as investing in their training. Capital and most importantly technology involvement will promise prosperity in conquering the local market. Greater strides should be given priority by the international business in investing in technology so as to minimize costs that come with non application of technology. It will ensure a redundant in the use of human resource which will reduce the operation costs.

Into the bargain, the utilization of the local experts would ensure real local

situation analysis of the political risk and therefore timely and best advice on the actions to take. They will analyze the situation from time to time and this will positively impact on the performance of the international businesses.

The international companies can also take up insurance policies that will see them operate amid the political risks they are likely to face. Insurance such as OPIC as well as MIGA are the possible insurance companies to consider for insurance coverage against political risk. Perhaps other international businesses can also look into the private insurance companies for the insurance policy. Whichever they select, insurance coverage is the probable solution to the political crisis for the international businesses operating in the Caspian Sea among the other measures.