

Guest Lecture for Batumi Shota Rustaveli State University
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Risk in International Business: Current Issues and Challenges

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Agenda:

1. Risk overview
2. Country risk: description – evaluation – response
3. Market & operational risk: description – evaluation – response
4. Transport risk: description – evaluation – response
5. Current issues & challenges
6. Questions & Comments




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Part 1

Understanding the risk in general




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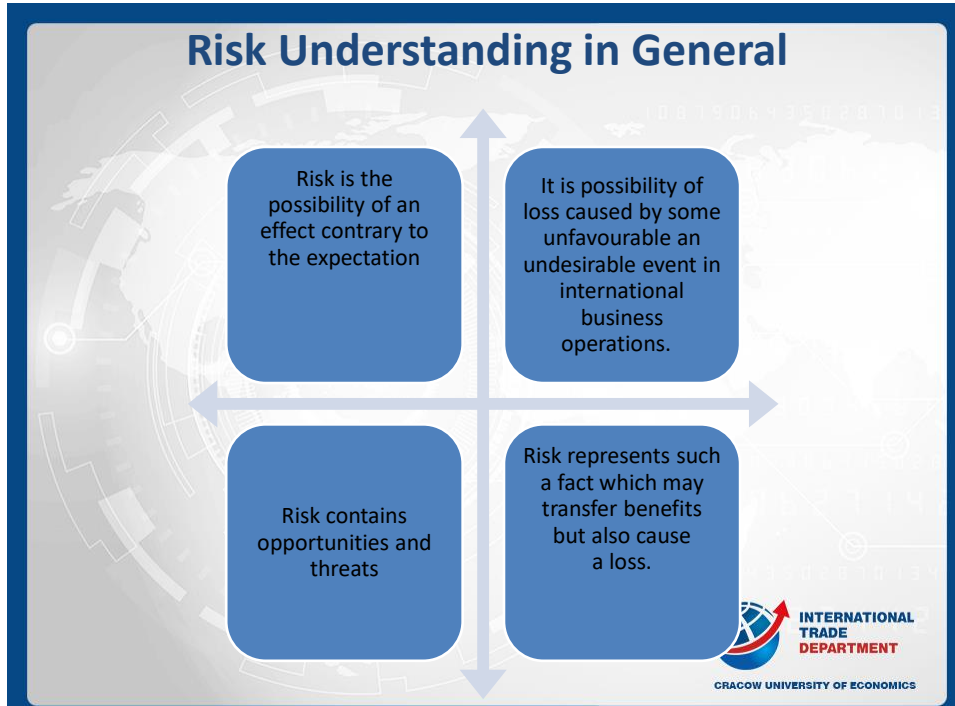
Risk – Etymology

Origin	Term	Description
Ancient Rome	<i>Risicare</i>	Dangerous sailing near rocks – “avoid – bypass”
Ancient Greece	<i>Riza</i>	Reef – sailing
Persian	<i>Rizi(k)</i>	Fate - daily payment - bread
Arabic	<i>Risq</i>	God's will – fate
Italian	<i>Rischio - risco</i>	Exposure to danger – reef which should be bypassed by ship
Spanish	<i>Arressgado</i>	Risky – bold – brave
French	<i>Risqué</i>	Courage – danger
Vietnamese	<i>Lieú</i>	Adventure
Polish	<i>Ryzyko</i>	Situation causing danger – something bad will happen.



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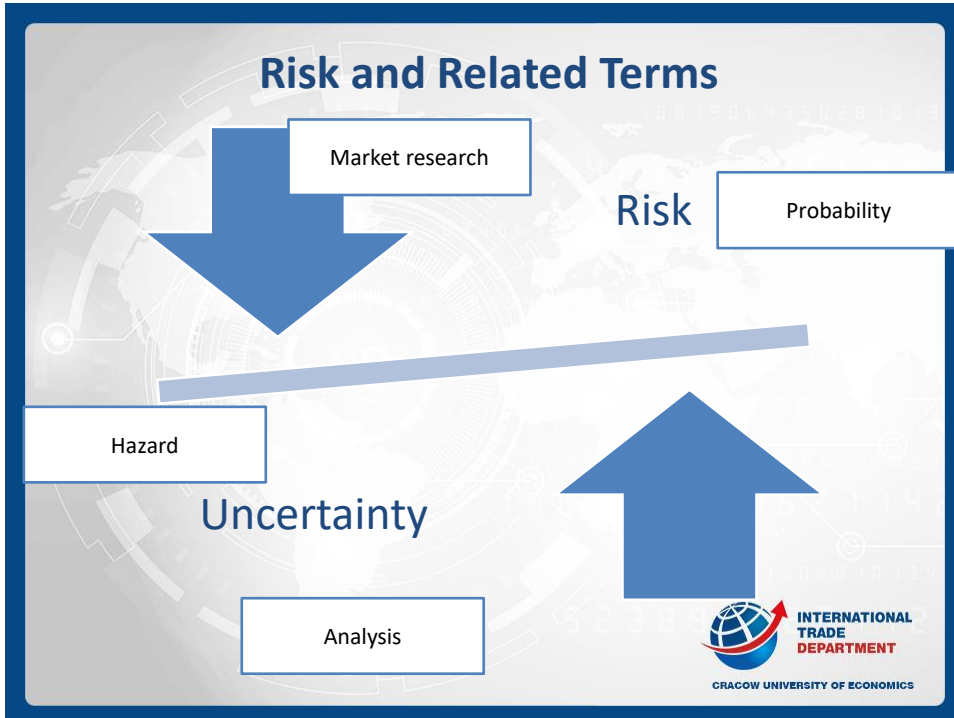
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Specificity of Risk

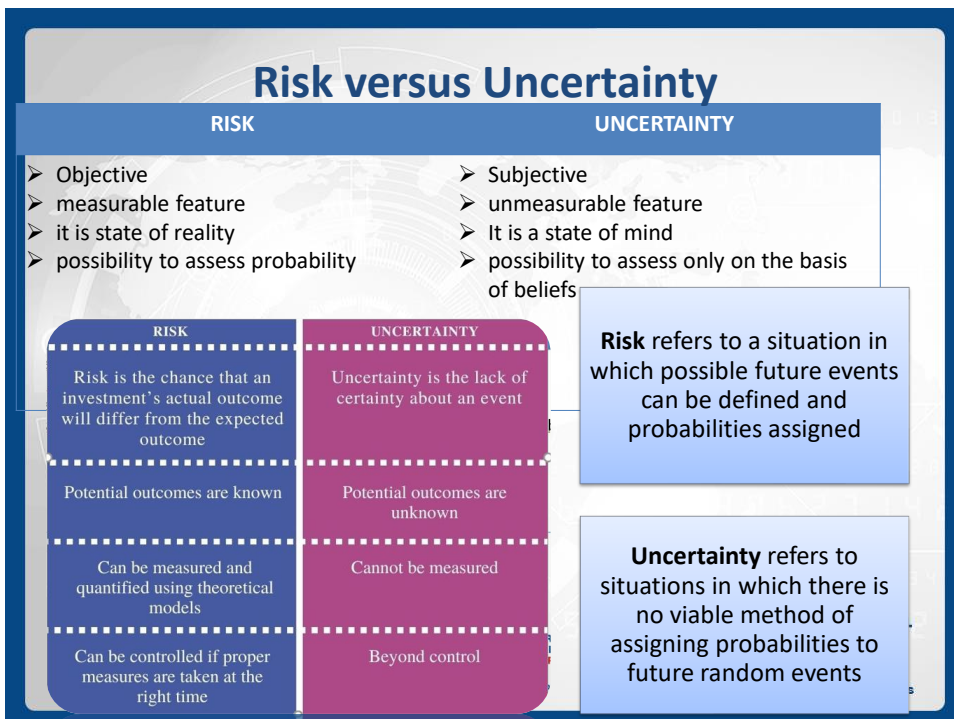
- The risk is not a homogeneous phenomenon, it means that one universal definition is not possible.
- The risk can be tested –perceived in different contexts, namely as danger, hazards, gambling, probabilities.
- Risk occurs at least in two aspects: positive and negative.
- Risk is dynamic phenomenon, divided into elements, components, it is process.


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Different Approaches and Classification of Risk

Taking into account source

Taking into account level

Typical categorization in IB



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Typical Risks in International Business

Political/country risk

Exchange risk

Operational risk

Transport risk

Market risk



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Part 2

Description of political/country risk



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Conceptual Approach: Political risk Macroenvironment

Political risk is the probability of disruption of the operations of firms by political forces or events, whether they occur in host countries, home country, or result from changes in the international environment.



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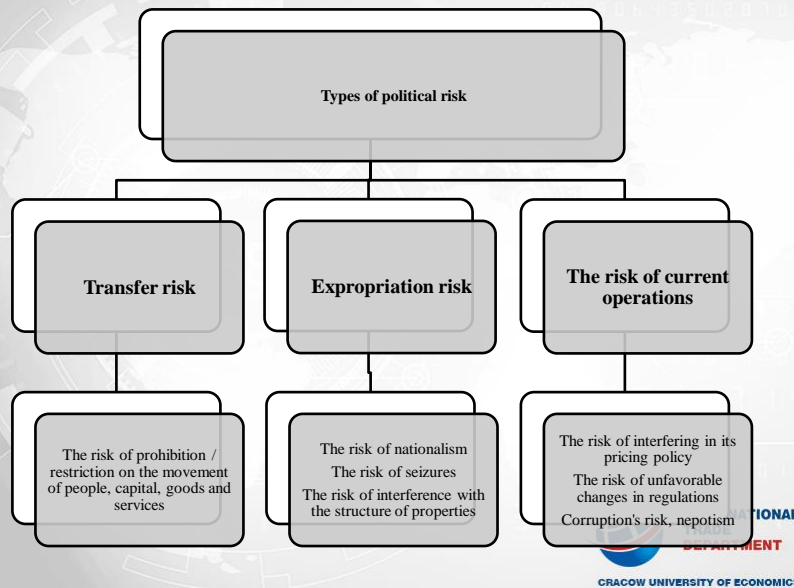
Reasons of political risk:

Reason	Example
The change in government policy	Argentina: trade policy change after assuming the presidency of Nestor Kirchner and his wife Christina. Their activities are focused on tax receipts from exports of food and raw materials in order to finance domestic consumption, and also restricting imports to protect local industry and to prevent the outflow of foreign currency abroad. Bolivia: change of policy after taking power by the left-wing of the party led by Evo Morales and the policy to start to nationalize foreign facilities.
Unstable political structure - institutional	Somalia, North Korea, Sudan, Afghanistan: countries rated as the most corrupt according to the Corruption Perceptions Index. Greece: political instability associated with the debt of the country.
Internal disturbances	Libya: the internal conflict caused after the overthrow of Muammar Gaddafi's regime in 2011. Egypt: mass protests in Egypt resulted from the February 2011 death of several thousand people. On the wave of Arab Spring toppled President Hosni Mubarak and the army took power. Central African Republic: internal conflict and unrest in 2012-2014. A country with huge and not fully assessed the possibility of mining gold mines, diamonds and oil.
External riots	Russian invasion on Ukraine. The political and diplomatic conflict Argentina - United Kingdom. Iraq War - the United States.

Source: own study based on [Rymarczyk 2015, pp. 483 - 485, Managing Political Risk ..., p. 3].

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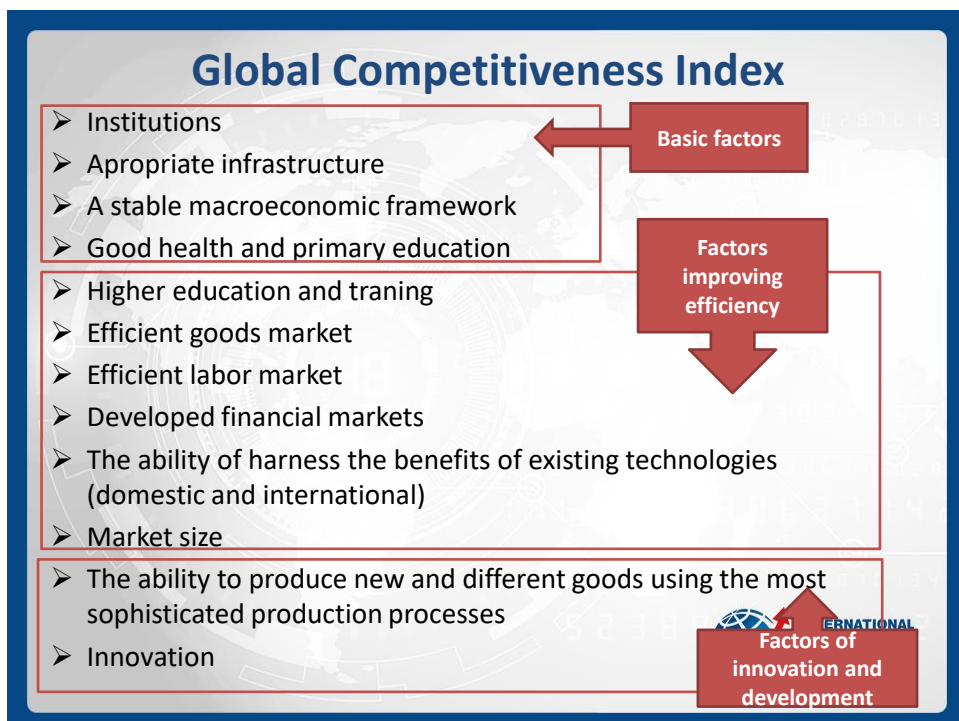
Typology of political risk:



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Index of Economic Freedom

Rule of law	Property rights, government integrity, judicial effectiveness
Government size	Government spending, tax burden, fiscal health
Regulatory efficiency	Business freedom, labor freedom, monetary freedom
Open markets	Trade freedom, investment freedom, financial freedom

Free	• 100-80
Mostly free	• 79.9-70
Moderately free	• 69.9-60
Mostly unfree	• 59.9-50
Repressed	• 49.9-40



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Easy of Doing Business Index

Abbr.	Subindices	Components
SB	Starting a Business	Procedures to start and operate a company (number), Time required to complete each procedure (days), Costs required to complete each procedure (% of income per capita), Paid-in minimum capital (% of income per capita)
DCP	Dealing with Construction Permits	Procedures to build a warehouse (number), Time required to complete each procedure (days), Costs required to complete each procedure (% of warehouse value), Building Quality Control (scale)
GE	Getting Electricity	Procedures to obtain electricity connections (number), Time required to complete each procedure (days), Costs required to complete each procedure (% of income per capita), Reliability of supply and transparency on tariff index (scale), Price of electricity (USD per kilowatt-hour)
RP	Registering Property	Procedure to transfer title of immovable property (number), Time required to complete each procedure (days), Costs required to complete each procedure (% of property value)
GC	Getting Credit	Strength of legal rights index (scale), Depth of credit information index (scale), Credit bureau coverage (% of adults), Credit registry coverage (% of adults)
PI	Protecting Minority Investors	Extent of disclosure index (scale), Extent of director liability index (scale), Easy of shareholder suits index (scale), Extent of conflict of interest regulation index (scale), Extent of shareholder rights index (scale), Extent of ownership and control index (scale), Extent of corporate transparency index (scale), Extent of shareholders governance index (scale), Strength of minority investor protection index (scale)
PT	Paying Taxes	Tax payments for manufacturing company (number per year), Time required to comply with three major taxes (hours per year), Total tax and contribution rate (% of profit before all taxes), Postfiling index
TAB	Trading Across Borders	Time to export: Border and documentary compliance (hours), Costs to export: Border and documentary compliance (USD) Time to import: Border and documentary compliance (hours), Costs to export: Border and documentary compliance (USD)
EC	Enforcing Contracts	Time required to enforce a contract through the courts (days), Costs required to enforce a contract through the courts (% claim value)
RI	Resolving Insolvency	Time required to recover debt (years), Cost required to recover debt (% of debtor's estate), Outcome Recovery rate for secure creditor (USD)

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Institutional Evaluations



Fitch Ratings

Business Environment Risk Intelligence

+ Insurers – Forfaitiers – Factors –
Financial Institutions – Rating Agency



Standard & Poor's



MOODY'S



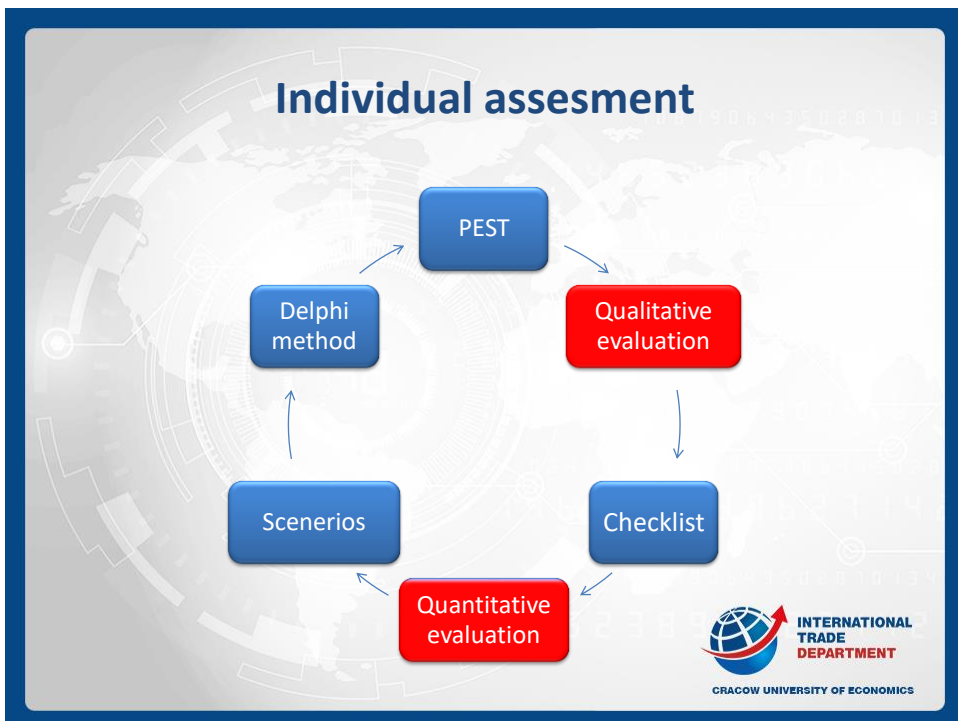
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Attitudes to Risk


- Passive attitude
- Reactive attitude
- Active attitude
- Proactive attitude




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Response to political risk


Dependent on type of political/country risk



Dependent on the Approach to risk



- Agreement with government in a country with high degree of risk
- Insurance
- Letter of credit/Forfaiting/Factoring/Discounting



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Insurance: Case of KUKE

KUKE is Polish company (insurer). Its shareholders are the State Treasury, represented by the Prime Minister and Bank Gospodarstwa Krajowego.

Policy for the East covers not only the consequences of typical events occurring in trade, such as buyer's insolvency, but also the results of political developments and events defined as force majeure, which may affect payments.

Conditions:

- The exported goods or services must meet the criteria of Polish content.
- The maximum payment term for the delivered goods and services rendered cannot exceed two years. For agricultural products the repayment term shall be no more than 540 days (WTO rules).

Afghanistan	Ecuador	Kyrgyzstan	Sao Tome and Principe
Albania	Equatorial Guinea	Laos	Serbia
Algeria	Eritrea	Liberia	Sierra Leone
Angola	Gambia	Libya	Somalia
Armenia	Georgia	Malawi	South Sudan
Azerbaijan	Ghana	Moldova	Sudan
Belarus	Guinea	Mongolia	Suriname
Bosnia and Herzegovina	Guinea-Bissau	Montenegro	Tajikistan
Burundi	Guyana	Myanmar	Turkmenistan
Cambodia	Iran	Nicaragua	Ukraine
Comoros	Iraq	Nigeria	Uzbekistan
Congo	Kazakhstan	North Macedonia	Venezuela
Congo, Dem. Rep.	Kenya	Pakistan	Viet Nam
Cuba	Korea, Dem. Rep. (North)	Russian Federation	Zambia
Dominican Rep.	Kosovo	Rwanda	

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Insurance: Case of KUKE

Insurance for FDI: It is insurance covering all the losses incurred in connection with the implementation of direct investment abroad resulted from the events defined as political risk, such as:

- decisions in the form of government intervention preventing effective execution of the investment,
- imposing of a universal payment moratorium,
- decisions regarding trade restrictions involving the prohibition of export, inability to transfer receivables (e.g.: dividends),
- total deprivation of the possibility of exercising rights under the investment.

The indemnity is also payable if the investment is destroyed as a result of force majeure, e.g.: earthquake, flood, fire or war.

The insurance covers direct investments abroad, understood as:

- acquisition of a foreign company or its organised part,
- establishment of a company abroad (including branches and representative offices),
- allocation of funds to extending operations of an existing representative office,
- performance of additional contributions and granting of loans by shareholders,
- acquisition of real estate and other fixed assets.

Conditions:

- new investments,
- long-term investments,
- comply with the binding and applicable law in the country of the investment at the time of carrying out the investment.



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Part 2

Description of market risk & operational risk



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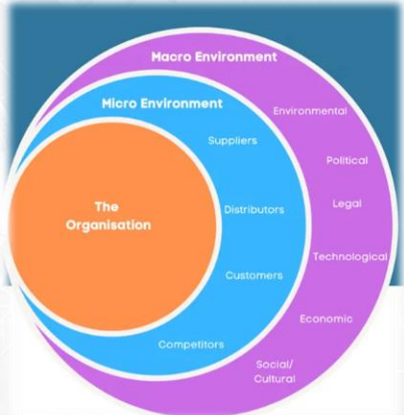
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Conceptual Approach: Market Risk

Microenvironment

It is an environment of the firm, set by the entities with which an organization interacts directly, e.g.: customers, suppliers, competitors, and the areas on which it functions: the market, industry, or the sector of economy (Głodowska, 2018)

The definition of microenvironment can also be presented much more broadly, indicating that these are not only entities, but also phenomena and processes that affect enterprise and are the subjects of its influence (Gierszewska & Romanowska, 2009)



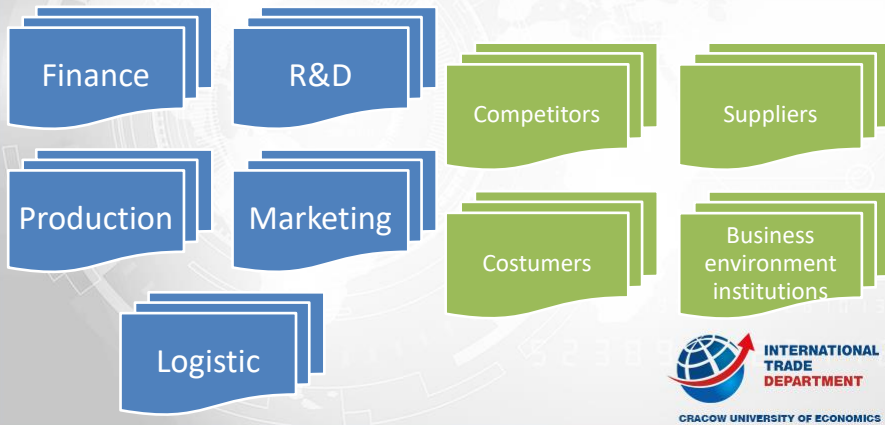


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Systematizing the Problem ...

This is a risk associated with decisions, processes, operations and events taking place at **micro – level, firm - level**. This applies to the current and strategic activities of the company, relations with the environment, the situation in the sector and the firm's situation.



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Individual Assessment



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Overview of the Industry

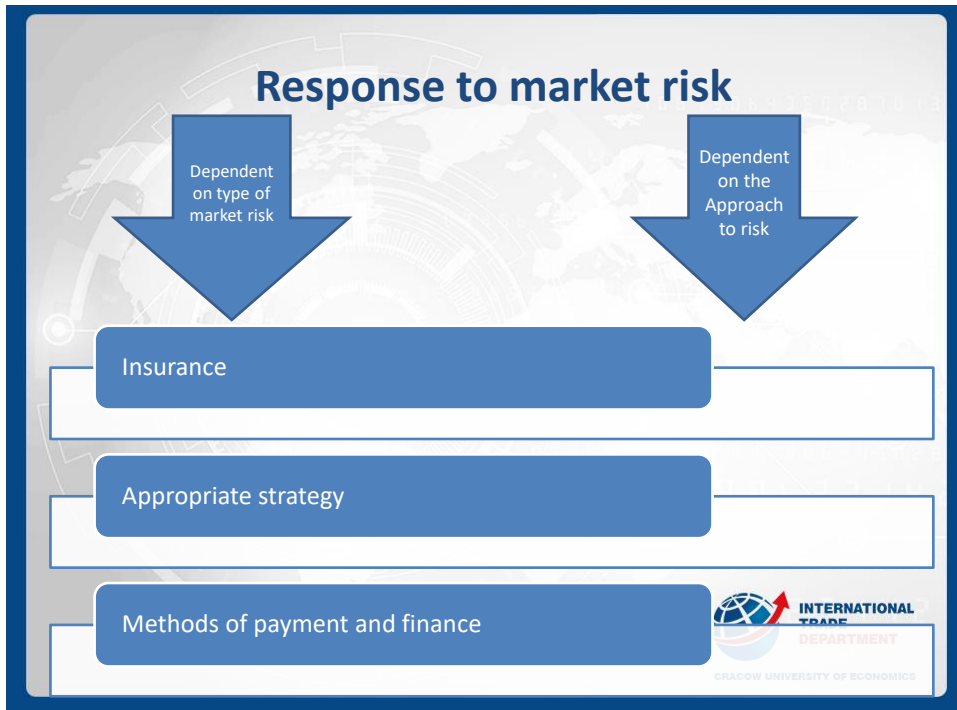
- Market share (segment)**
 - The ratio of sales carried out by a given entity (firm) in relation to the market potential: absolute and relative market share
- Market potential**
 - The maximum achievable volume of sales of all market players in a given period of time, with a given marketing expenditure and in a given marketing environment.
- Market dynamics**
 - The rate of change of a given parameter at specified intervals; dynamics indicators can be a tool for diagnosing the degree of market maturity and assessing the prospects for its development.
- Market absorption**
 - The measure that determines the degree of intensity of market needs in relation to the existing state of their satisfaction. It allows to identify market niches.


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Insurance: Trade Receivables Insurance

Offered by insurance firms: No uniform – standard product - depend on the insurer's offer:
e.g. - insurance for a start or for SMEs; - package policy; - individual policy

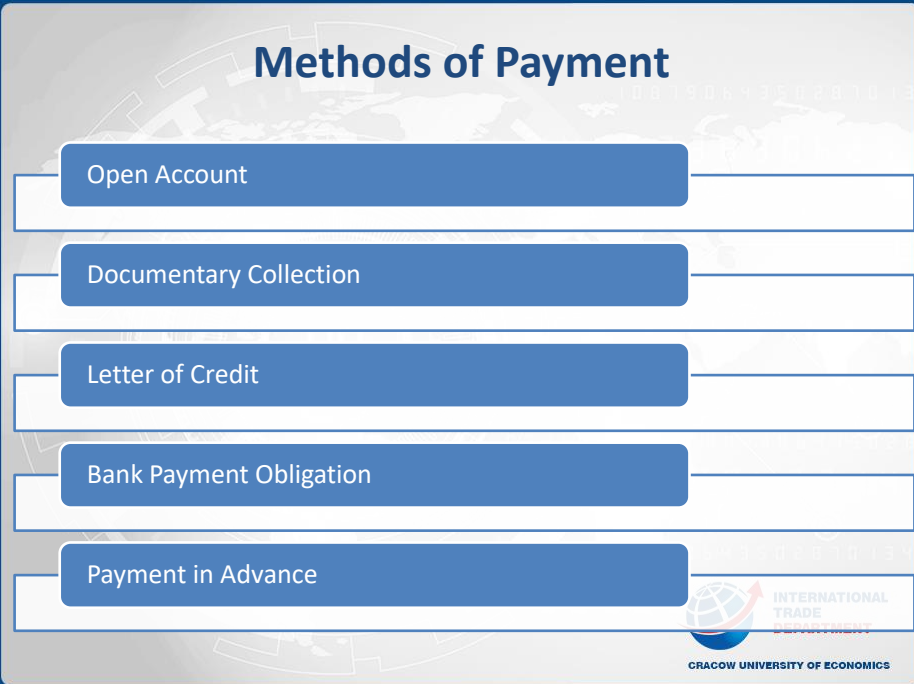
Typical steps: 1. Assessment of the buyer's credit worthiness; 2. Conclusion of an insurance agreement and payment of insurance premium; 3. Delivery of goods or services and payment by the buyer; 4. Step 5: Indemnification.

Typical conditions: transactions with deferred forms of payment; premium is determined usually individually according to several criteria; receivables subject to insurance must be confirmed by a properly issued invoice; sometimes period of contract is determined as well as currency and country of buyers.


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Methods of Payment



- Open Account
- Documentary Collection
- Letter of Credit
- Bank Payment Obligation
- Payment in Advance

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Part 3

Description of transport risk



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Transport Risk: Source

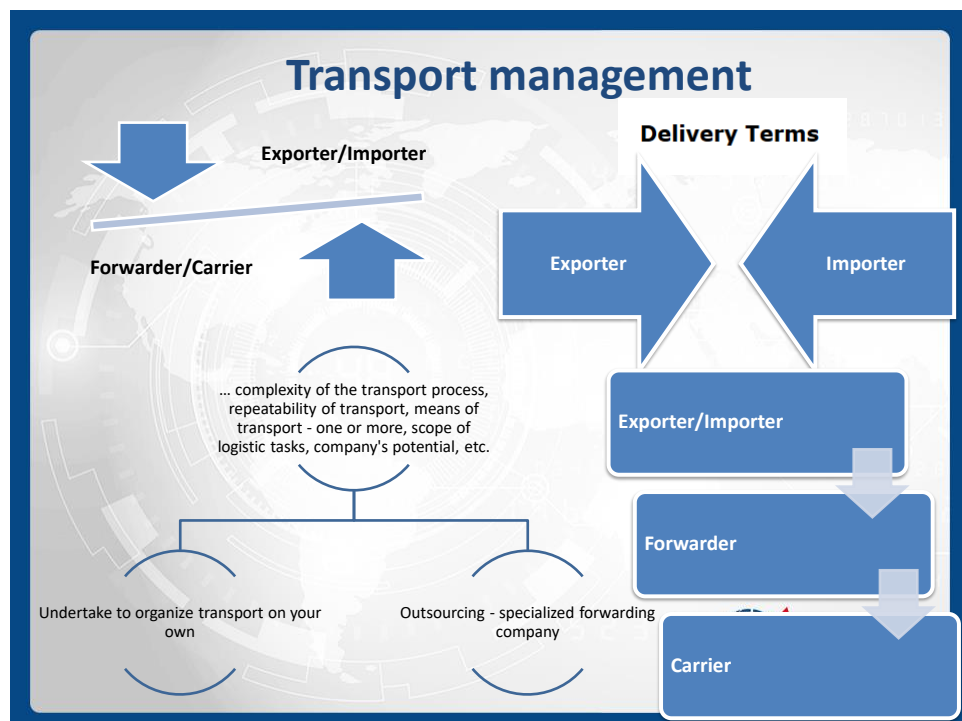
The risk of loss or damage of the goods during transport from the place of loading to the place of destination or failure to deliver the goods within the required time.

- ... theft and robbery ... organized crime ...
- ...employee dishonesty...
- ... poor organization of the transport process ...
- ... forces of majeure ... climate changes...
 - ...damage during loading and unloading operations ... piracy....collisions
 - ...improper means of transport...
- ...decrease in the quality of services...

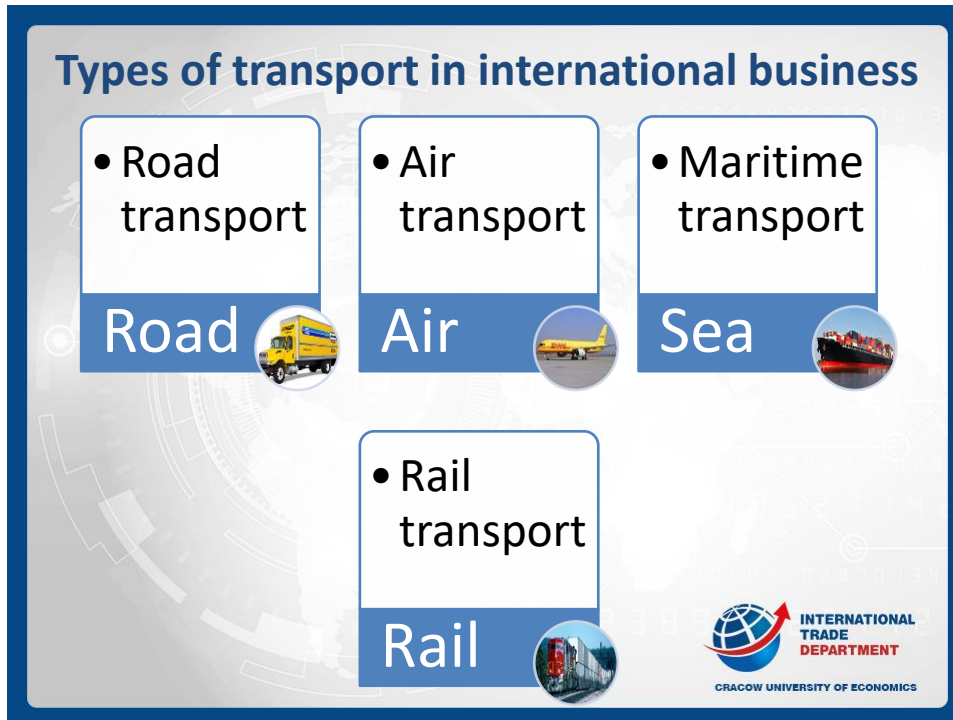


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Transport management



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Delivery Terms

Incoterms 2020 rules are the official commercial terms published by the International Chamber of Commerce (ICC). They are a voluntary, authoritative, globally-accepted and adhered-to text for determining the responsibilities of buyers and sellers for the delivery of goods under sales contracts for international trade.

RULES FOR ANY MODE OR MODES OF TRANSPORT

- EXW | Ex Works
- FCA | Free Carrier
- CPT | Carriage Paid To
- CIP | Carriage and Insurance Paid To
- DAP | Delivered at Place
- DPU | Delivered at Place Unloaded
- DDP | Delivered Duty Paid

RULES FOR SEA AND INLAND WATERWAY TRANSPORT

- FAS | Free Alongside Ship
- FOB | Free On Board
- CFR | Cost and Freight
- CIF | Cost Insurance and Freight

 **Incoterms**[®]
2020 by the International Chamber of Commerce (ICC)

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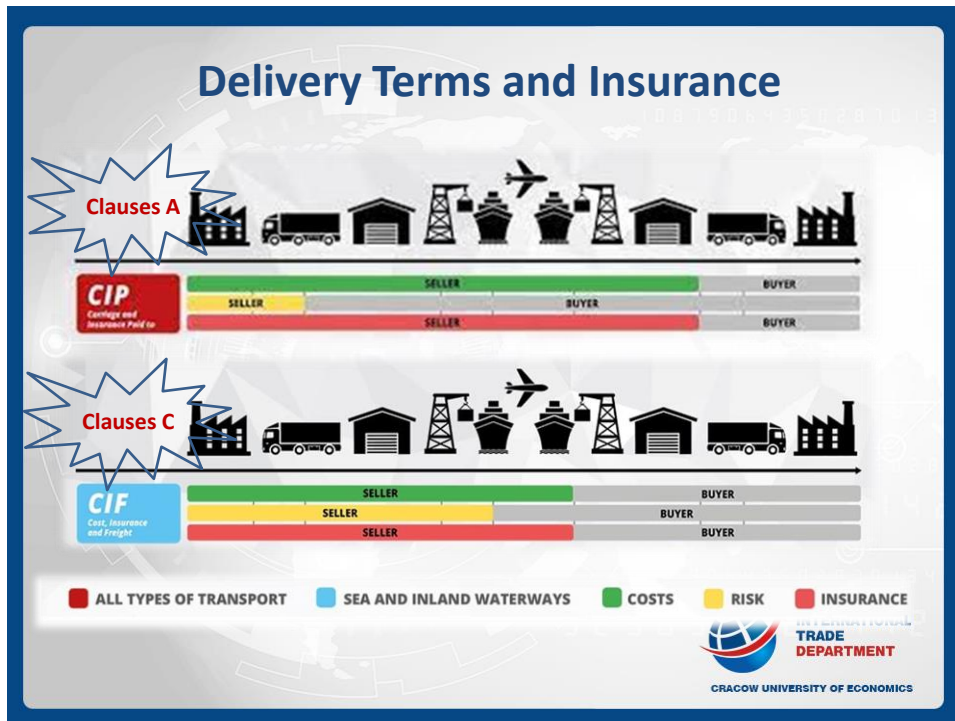
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Incoterms 2020: Responsibilities of Parties

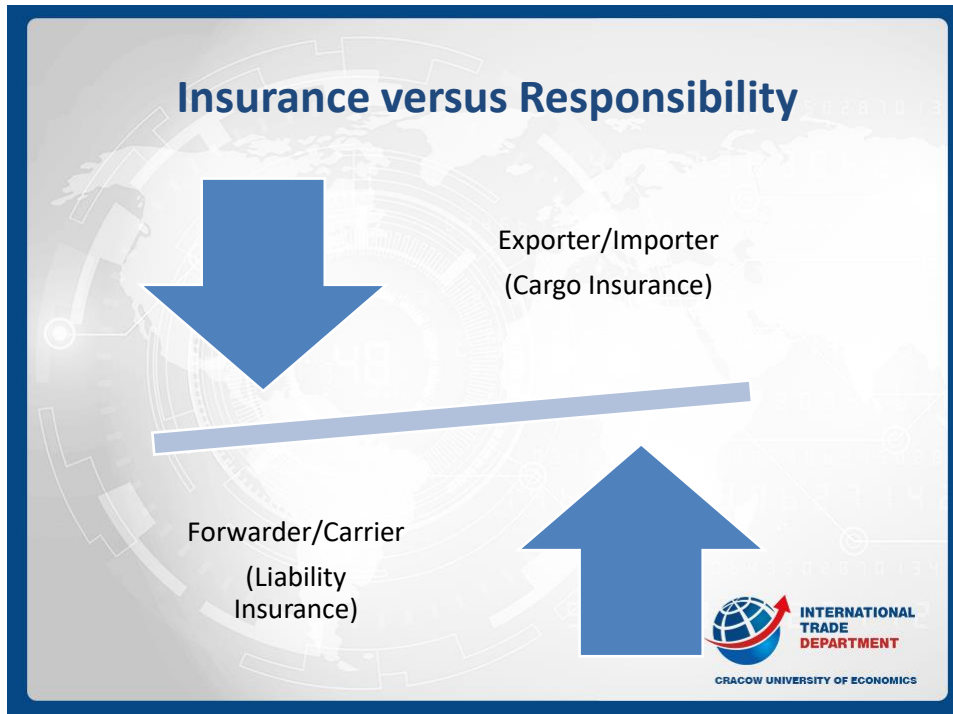
	Any Mode		Sea Transport Only				Any Mode				
	EXW	FCA	FAS	FOB	CFR	CIF	CPT	CIP	DAP	DPU	DDP
	Ex-Works	Free Carrier	Free Alongside Ship	Free On Board	Cost and Freight	Cost, Insurance, Freight	Carriage Paid To	Carriage and Insurance Paid	Delivered At Place	Delivered at Place Unloaded	Delivered Duty Paid
Risk transfers when:	Goods placed at buyer's disposal	Goods placed at buyer's disposal	Goods arrive alongside ship	Goods loaded on ship	Goods loaded on ship	Goods loaded on ship	Goods taken in charge by carrier	Goods taken in charge by carrier	Goods arrive at named destination	Goods unloaded at named destination	Goods arrive at named destination
Loading and inland transport	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Export taxes, clearance	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Unloading of the vehicle in the export port	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Loading fees in export port	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Main carriage	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller	Seller	Seller	Seller
Unloading fees in import port	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Negotiable	Seller	Seller	Seller	Seller
Loading to the transport vehicle in import port	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller	Seller
Transport to the delivery address	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Seller	Seller
Import formalities, duties, fees	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller
Unloading at named destination	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Buyer	Seller	Buyer
Insurance	Negotiable	Negotiable	Negotiable	Negotiable	Negotiable	Seller Clauses (C)	Negotiable	Seller Clauses (A)	Negotiable	Negotiable	Negotiable

SheppardMullin

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Cargo insurance versus Carrier's responsibility

Cargo insurance protects the cargo from the moment it leaves the place of origin until delivery to the destination, including loading, unloading and storage.

Basic (liability) insurance resulting from the liability insurance protects the goods only from the damage caused by the fault of the forwarder or the carrier.


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Part 4

Current Issues & Challenges


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The most severe risks on a global scale over the next 10 years

■ Economic
 ■ Environmental
 ■ Geopolitical
 ■ Societal
 ■ Technological

<p>1st Climate action failure</p> <p>2nd Extreme weather</p> <p>3rd Biodiversity loss</p> <p>4th Social cohesion erosion</p> <p>5th Livelihood crises</p>	<p>6th Infectious diseases</p> <p>7th Human environmental damage</p> <p>8th Natural resource crises</p> <p>9th Debt crises</p> <p>10th Geoeconomic confrontation</p>
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Source: World Economic Forum Global Risks Perception Survey 2021-2022


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Poland's perspective

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Pandemic COVID-19

Effects

- Lockdown
- Changing consumer behavior
- Macroeconomic disruptions (inflation, wage pressure, increases in raw materials and energy prices)
- Disruptions in the supply chain

Threats

Opportunity



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Russion invasion in Ukraine




Effects

- Cost increase
- Breaking contracts
- Macroeconomic disruptions (inflation, wage pressure, increases in raw materials and energy prices)
- Disruptions in the supply chain

Threats →

← Opportunity

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Thank you for attention!

Questions and comments

Questions?

Comments?

Suggestions?



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