

# Top Risks of International Businesses

Here are 7 risks commonly faced by businesses involved in international trade and the effective ways to manage them.

- Credit Risk. ...
- Intellectual Property Risk. ...
- Foreign Exchange Risk. ...
- Ethics Risks. ...
- Shipping Risks. ...
- Country and Political Risks.
- Piracy risk

# Credit Risk

- Counterparty or credit risk is the risk associated with not collecting an **account receivable**. There are numerous ways in which businesses can guard themselves against this risk while expanding to global markets.
- **Take payment in full [or a decent percentage of money upfront]**
- **Letter of credit**

# Intellectual Property Risk

- This risk involves third parties making unauthorized use of the strategic information of a business or property that affects the value of services or products offered by a business, either directly or indirectly.
- These risks increase tenfold when doing business overseas because of the difficulties that exist in defeating business rights remotely. This can be avoided by registering the corporate names as well as the trademarks before signing an agreement in any country.
- It will also be beneficial to constantly modify and improve your services or products to remain ahead of the competition.

# Foreign Exchange Risk

- This usually concerns the accounts payable and receivable for contracts that are, or soon would be, in force. Foreign exchange rates are in flux constantly. Hence, businesses would be forced to make conversions of the funds generated overseas at rates lower than what is budgeted.
- This is the reason why it is crucial for businesses to have an appropriate exchange policy in place. This will help in –
  - Stabilizing profit margins over sales made
  - Mitigating the negative impact of fluctuating rates on sales and procurements
  - Enhancing cash flow control
  - Simplifying domestic and foreign pricing
- Businesses need to identify foreign exchange risks to frame an effective policy. It is also essential to recognize the tools available for hedging these risks and carry out a comparative analysis on a regular basis for selecting the best tool available.

# Hedging

- Businesses may attempt to [hedge](#) some of its foreign-exchange risks by buying futures, [currency forwards](#), or options on the currency market. The purpose of these hedges is to reduce the risk that price movements in the currency market will adversely affect the company's revenue and profits.
- For example, importers and exporters will often use currency forwards to hedge against exchange rate fluctuations. They will enter into a currency forward contract with a bank or other financial institution. This binding [over-the-counter](#) (OTC) contract locks in the exchange rate for the purchase or sale of a specific currency on a future date.

# Ethics Risks

- It is vital to maintain a high ethical standard when offering any product or service in a global market. Companies may face certain questions pertaining to their values at any point while doing international trade.
- Social conditions and customs vary from country to country, and hence, it is necessary to be especially vigilant. You need to make sure that your foreign suppliers and partners adhere to your values and rules regardless of where they operate from.

# Shipping Risks

- Whether you are shipping goods abroad or locally, you may face issues such as contamination, seizure, accident, damage, theft, loss, and breakage. Before shipping any goods to the buyers, you need to make sure to have sufficient insurance.
- The International Chamber of Commerce has laid down rules for each party involved in international trade and their responsibilities with regard to shipping risk. It is best to go through the rules and take necessary precautionary steps.



# Country and Political Risks

- These are risks such as non-tariff trade barriers, central bank exchange regulations, or ban on the sale of certain products in specific countries. For instance, several countries have banned products obtained from threatened animal species.
- There would be certain things that would never be under your control, such as sanctions, and you must be prepared in order to overcome them. You can find more information on such restrictions by checking the official website of the Ministry of Foreign Affairs and Trade for the specific country.

# Other regulations

## ✓ **Exchange Control Regulations**

- Several developing nations operate certain exchange control regulations that are associated with the flow of money from and to their country. You need to identify if these regulations are effective in the country which you intend to trade with. This is because these can delay your payments.

## ✓ **Prohibited Goods**

- You need to make sure to carry out basic research on the import/export allowances offered by the country you are interested to carry out your business in. There are many products that are prohibited or restricted in some countries.
- For instance, what is acceptable in China may not be allowed in New Zealand. You need to make sure to check out all the rules pertaining to your target market in the country you are interested to carry out trade with.
- Whenever you are exporting certain products, it is essential to get them verified so that they meet the requirements of the country you would be exporting to. It is mandatory to obtain an export certificate before you actually commence trading globally.
- [Customs](#) will then verify the details associated with your export certificate. It is better to be familiar with all the rules that you are governed with while trading globally, rather than face hurdles at a later stage. This will help you operate your business without any hassles once you have set your roots.

# Piracy risk

- Piracy takes many forms. It may include armed robbery, kidnapping for ransom or murder. It can also include crimes of opportunity, such as unlawful requests for payments for anchorage.
- All forms of shipping are attractive targets for pirates. This includes commercial vessels, pleasure craft (such as yachts) and luxury cruise liners.
- Whether you're travelling by commercial vessel or private yacht, you should be aware of the risk of piracy in parts of the world. In particular:
  - the Horn of Africa, including the Gulf of Aden and Yemen
  - the Gulf of Guinea
  - South East Asia
  - the South China Sea