A Case Study "Challenges and threats for international business"

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Abstract

International business has been a much discussing topic. Threat to international business is the major fences the growing of the same trade in all over the world. Economics expert have disagree on the reality of international business for a country benefits. When a country increased their exports in to foreign market its economically situation are growing and its high beneficial for its economy. But if we see for other hand the country and its imports are increase can be create threat for importer country economy. The policy maker of the country economy have been worry and making strike rules to keep the balance between the agreement of two country, International business can be develop the country economy, at the main time many local players can be outdid by financially stronger multinational by forced close down their business or get merge to multinational companies. In many cases multinational companies become so powerful compare to the locals companies particularly in small countries, for their own benefit they can dictate the political terms to the government of the country.

Keywords: International, Economics, Beneficial, Develop, Multinational, Powerful, Government

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Introduction

During the colonial period, the risks for foreign investment were virtually non-existent, as an investor with money colonies hold Imperial State had almost absolute Protection. Even if the investment in countries was made, which was not less Colonial rule, the protection is often repaired by diplomatic means the collective perception of pressure from countries of origin of the

investors involved. But the end of colonialism, the subsequent appearance of economic nationalism and the lack of protection through the exercise of military power have greatly increased the risks for foreign investment in the modern world (Maathai, W, 1995).
A company to engage in the trade across international borders will probably determine that the risks are higher than the normal business risks on the domestic market. Risks of international trade as a result of the need for, a different corporate culture, or even a different language saw to cope themselves with different laws in another country. Economic risks include the risk of non-payment by the buyer and credit movements in the rate of interest or exchange rates risk. When delivered the goods abroad, risk of damage to or loss of the goods, contract disputes or denial of the goods by the purchaser can arise. The political risks of international trade include the possibility of expropriation of property by a foreign Government or import changes in public policy on tariffs or quotas (Ghemawat & Reiche, 2011).

Risk in international business can be define in several steps

1- Economics Risk:

Economics risk can be defined as: is the accidental that macroeconomic circumstances like conversation rates, political constancy or administration regulation will be affect an investment, frequently one in a foreign country (Gianni De, Honohan & Ize, 2003).
The opportunity an economic slowdown adversely has effect on investments, for example, start produced directly for luxury or during a recession has many economic risks. Economic risk is closely linked to the political risk, as the Government decisions, the impact on the economy can affect an investment. For example, a Central Bank can raise interest rates or the legislature can raise taxes and thus economic conditions that can effect on investments. Risks for foreign investments such as economic factors development and currency affect exchange rates the level of risk associated with the foreign investment, with stable economic growth; countries have less risk compared to those countries whose economic growth fluctuates quickly varies over the course of time (Love & Lattimore, 2009).

Economic risks can be dividing in following risks

-Risk of non-acceptance
-Risk of Exchange rate in currency worldwide
-Risk of insolvency of the buyer
-Risk of conceding in economic control
-Risk of long-drawn-out nonpayment i.e. the failure of the buyer to pay off the unpaid Amount after quarter or six months of the due date

2-Political Risk:

Political risk can be defined as Political risk is a nature of risk confronted by investors, corporations, and governments. It is the type of risk that can be unstated and achieved with coherent forethought and investment (Glenn, 1994).
The type of risk that an investment's earnings could hurt as a result of political vicissitudes or unpredictability in a country, Instability affecting investment returns could stem from a change in government, legislative bodies, other foreign policy makers, or military control. Political risk can also be called as "geopolitical risk," and becomes more of a factor as the time prospect of an investment becomes longer (Atchison, David W & David J, 2003).

Political risk can be divided in the following steps

-Political uncertainty of a country
-War and terrier
-Surrounding of political region
-Risk in the non-renewal exports and imports license

3- Country buyer and seller risk:
For international executive needs to avoid the main drawbacks of country risk assessment by looking for information in a variety of places, leading relevant analysis, and changing opinions if necessary. A company must set acceptable risk objectives based on its reward goals and risk tolerance. The key to reducing risk is a thorough assessment of the country and customers. Maintaining a systematic approach for each customer and country in this analysis will assure that each evaluation is consistent, relevant, and objective (Rittenberg & Martens, 2012).

For buyer and seller that they are involved in international trade that they may be facing the following risks

- Government policies
- Trade and international business restrictions
- The shortage of foreign currency in the investment country
- The exchange regulation policies
- Seller performance risk
- Interest rate risk
- Buyer acceptance risk
- Buyer credit risk/liquidation

4-Commercial risks:

Commercial risks can be defined as "as a firm/organization have to transaction with foreigner buyer working in a changed lawful and political environment in international trade, the risk to smooth behavior of the commercial transaction upsurge various, and financial risk accepted by a seller when spreading credit without any collected or resources. In simple words all other risk except the political risk (Najam, 2001).
Commercial risks are to the deprivation loss or in demand to another party or markets. International business enhance to upsurge in different ways risk to equate to local risk. This is the mostly due to lengthier distance partner between you and your counterparty, strange culture, economic and political environment as well as local and nonlocal rules.
The custom of transections term such as payment and collection documentary credit and normal transfer delivery terms like the incoterms decrease or remove various risks regarding to your business including to cancellation of orders, delayed payment or late delivery (Mary C, Bart, Ay, Sahin & Robert G, 2012).

Example of commercial risks

- Nature of business and nature transection with buyer
- Buyer financial position
- You have different type understanding/clarification of which you are decided upon
- Your business partner is not bequeathing accomplish the agreement
- Your business partner are not capable for delivery the payment on time and potential loss of shipments are acceptable

1 - A sellers incapable to deliver the required quantity or quality of goods
2 - Probability of shipment being refused
3 - Value of the shipments

5-Others risks to International Trade:

In other risks culture difference, lake of knowledge, overseas markets, language barriers corruption in business and natural risks these are risks which create the problems for the foreigner investors (Games, 2011).

In details the other risks are includes

- Lake of knowledge for overseas markets entrance
- Natural risks due to numerous type of natural disasters which cannot be in human control

- Language differences is the main problem in all over the world i.e. Chains and Japanese have big problem to understood Arabic and English, and majors business opportunities for china ,Korea and Japanese companies are gulf countries
- Autonomous risk the capability of the administration of a country to pay off its amount overdue (Debts)
- Inclination to corrupt business associates like many country have corrupt business organization i.e. in Zimbabwe, Pakistan
- Culture differences for example cultures believe the payment of an inducement to help business is unconditionally lawful

Conclusion

While the advantages of international trade surpass the risks, firms should take a risk valuation of both country and to also include intellectual property, bureaucratic procedure 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.

However, although this obligation precious treasures that have been in the domestic space is operated are confronted with a steep profit curve. Specific risks (e.g., buyer / supplier risk) are familiar. In terms of general principles, but very different in practice other risks such as money, and also be familiar especially challenging in many developing countries, where the local currency is not freely tradable, companies should assess the risk begin discriminated against domestic companies. Also red-tape practices among the lower operational levels of the government. Companies also should focus on local and federal system of a country.

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