Chapter 3
Assessing the Risk Reducing Strategies in International Investment

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ABSTRACT

International investment presents huge potential gains in economic development, technological lead and exchange of culture. But it also poses major risks to the number of successful ventures that we conduct. This chapter starts with a general discussion of how the above-mentioned factors could significantly affect risk exposure related to international investment, followed by an appraisal section on different approaches focus on some popular methodologies employed in analyzing all kind of risks and mitigation factotums for effectively reducing those assessed risks. This will provide them with the necessary foundation, a good business perspective to take calculated decisions and in turn improve the robustness and profitability of their international investments. It starts by providing definitions of terms like foreign direct investment (FDI), portfolio investment, and international trade, as well as discussing the particular forms of risks that happen in each kind of investment.

INTRODUCTION

Foreign investment, which is the backbone of globalisation, promise vast potentialities for expansion of economies, development of technologies and sharing of ideas and cultures (Smith, 2020). But it comes with numerous threats which can pose a threat to the success of such venture (Johnson & Lee, 2018). Increasing velocity and amplitude of political instabilities, currency oscillations, different culture

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and legal systems which are not always compatible makes investment in a foreign country a difficult endeavour requiring careful handling if the investment is to be protected and returns on it improved.

Having established the nature of risk in the international investment and the institution that oversees it, this chapter focuses on the most important areas within risk evaluation and management. This paper also offers a clear understanding of the determinants of risk, different approaches to risk evaluation and mechanisms of diminishing risk (Williams, 2019).

For this reason, considering the elements mentioned above, investors can protect themselves and, therefore, improve the profitability of their international business.

Foreign investment can be defined broadly; however it tends to involve Foreign Direct Investment (FDI), Portfolio investment, and other international business such as export and import. FDI pertains to the acquisition of a substantial ownership stake in a business operating in another country and portfolio investment refers to the ownership of foreign securities, including shares and bonds (Davis, 2022).

Foreign trade, however, concerns the exchange of goods and services between countries of different economies.

For each type of International investment there are different risks and difficulties. For instance, FDI can get affected by political risk like expropriation or Iran nationalization while on the other hand portfolio investment can be affected by currency fluctuations and market risks (Miller, 2023). International trade, on the other hand, has risks that are customer-related risks that include tariffs, quotas and trade disputes (Garcia, 2020).

There are factors that may determine the level of risk that is found in international investment ventures. These include:

1. **Political Risk:** Fluctuations in political political stability, shifts in the government policies, and in geopolitical realities in a particular country can largely influence the investment climate (Lee, 2019).
2. **Economic Risk:** Influence of maco business factors such as; inflation, interest rates, exchange rates impacts on the return and risks of investments (Adams, 2021).
3. **Currency Risk**: Some losses and gains that arise occur through the changes which affect the value of foreign investments through exchange rates (Peterson, 2020).
4. **Cultural Risk:** Thus, cultural variations in communication, expectations and business behaviours might cause conflict in communication, bargaining and interpersonal relations (Roberts & Chang, 2018).
5. **Legal Risk**: There exist differences regarding legal systems and regulations in countries under study and awareness of these differences helps in the avoidance of legal concerns (Thompson, 2021).
6. **Operational Risk:** The operation risks are associated with factors like supply and also demand networks, calamities including natural disasters, failures of technology (Jones, 2022).

To assess the risks, one needs to identify them first to be in a position to manage them well. Various methodologies can be employed to quantify and prioritize risks, including:

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1. **Qualitative Analysis**: This involves the use of objective criteria based on the expert's knowledge and that involves the use of judgmental and qualitative factors like political risks, and economic potential (White, 2020).

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