

# BOOK REVIEWS

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## THE PERILS OF DOING BUSINESS ACROSS BORDERS

### GUIDE TO COUNTRY RISK: How to identify, manage and mitigate the risks of doing business across borders.

*Mina Toksöz. London: Economist Books, 2014. 288 p.*

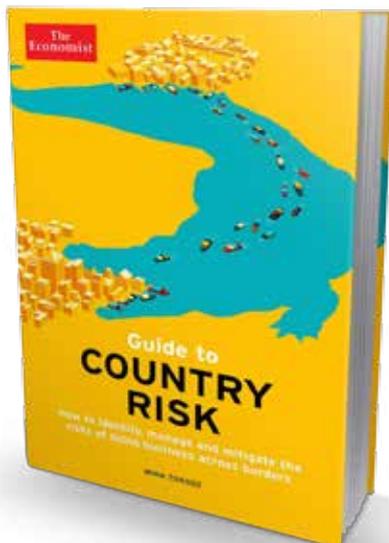
The reestablishment of the world's economic center to Asia (China was the world's largest economy until around 1870) has many positives. In addition to lifting hundreds of millions of people out of poverty in China and the neighboring region, growth in Asia helped mitigate the effects of the global financial crisis in 2008. Today, China and India are key drivers of the global economy with over a hundred countries listing the middle kingdom as their most important trading partner.

Along with the economic revival in Asia, unprecedented global interconnectedness has also raised the level of risk exposure to virtually all businesses around the world. One example is North Korea: while an unpredictable hermit kingdom on the other side of the world would hardly have concerned Brazil's Embraer and Vale in the early 1990s, Kim Jong Un's current nuclear overture could have the potential to create geopolitical instability in North-east Asia, including China, an essential market to both companies.

Country risk, which analyzes risk when conducting business across borders, also seems to be on the rise in developed countries. The rise of xenophobia and nationalist politics in Europe, Brexit, and the possibility of Donald Trump winning the U.S. presidential election all represent potential and important risks for investors in the global economy.

Larry Summers recently wrote,

Even the possibility of Trump becoming president is dangerous. The economy is already growing at a sub-two percent rate in substantial part because of a lack of confidence in a weak world economy. A growing sense that a protectionist demagogue could soon become President of the United States would surely introduce great uncertainty at home and abroad. The resulting increase in risk premiums might well be enough to tip a fragile US economy into recession. And a concern that the US was becoming protectionist and isolationist could easily undermine confidence in many emerging markets and set off a financial crisis.



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Despite this new reality, political scientists often complain that internationally-operating companies make key investment decisions purely based on economic data alone while neglecting political risk. Executives generally believe it is too difficult to quantify political risk, and is usually left out of the equation altogether, or considered informally on a gut feeling of the situation.

An extract from Ian Bremmer and Preston Keat's popular book on political risk, *The Fat Tail*, highlights this sentiment.

A recent survey of executives on risk management in the financial services industry revealed that political risk was considered the least likely of all risk categories to be managed well. Geopolitical risk was also perceived as least likely to impact a corporation, and thus least likely to be included in a company's risk management planning. Indeed, many executives believe they are only rarely affected by political events that dominate the news, such as the civil wars in Syria and Iraq, Russia's annexation of Crimea, or tensions between China and Japan. And yet, political risk covers far more than the risk of violent conflict in specific markets. In addition to geopolitical risk, the risk of terrorism, expropriation, corruption and changing regulatory policies can affect companies acting internationally.

An interesting and detailed introduction of these themes, together with accessible analysis that explains the many facets of political risk analysis, has been written by Mina Toksöz, former head of Country Risk at Standard Bank International. It includes excellent descriptive examples of regulatory risks (including tax increases on mining corporations in Australia and local content rules for oil exploration in Brazil), convertibility risks (increasingly complex profit repatriation policy in Venezuela), and domestic political risks, such as the real possibility of Donald Trump winning the U.S. presidential election.

Toksöz explains clearly how macroeconomic trends affect industries in various ways and often with unexpected consequences. For example, the end of the commodity boom led to massive layoffs in South Africa's mining sector and increased the risk of social unrest, which in turn led to stronger support

for populist leaders such as Julius Malema, thus increasing the risk of expropriation and a general decline in South Africa's business environment.

Unlike many available books on international affairs or risk analysis, Toksöz provides step-by-step instructions on how to assemble an actual model to assess country risk. This makes the book more of a hands-on guidebook for people working in the field than an abstract discussion of international affairs for the interested non-specialist. This book is no substitute for seeking the advice of political risk analysts to enable a company to make sense of dealing with broad political trends. However, it can be a first step for an organization that is beginning to think about risk analysis in the international business environment.

It is a useful resource for practitioners, though not necessarily for scholars, as Toksöz provides essential theoretical background and only a few references to current work on the subject. At the same time, she does not offer any overall guiding arguments as would an academic analysis. Given its manual-style format the *Guide to Country Risk* is written in a relatively dry and technical style and only those readers with a great interest in the topic will likely read to the end.

Yet, the book presents many positives. What is perhaps most striking about Toksöz's book is that, contrary to the current popular gloom about international political events, it lists many tangible initiatives that have reduced risk factors for international investors. For example, global transparency standards are higher today than before and anti-corruption enforcement makes prosecution more likely, as in Brazil, where post-9/11 banking laws helped the Brazilian Federal Police uncover the largest corruption scheme in the country's history. However, the author does highlight growing concerns about the European Union (EU) Troika's inability to handle the Greek crisis and suggests that future crises could further damage the EU. She also points out that understanding political risk analysis and the dynamics of supranational entities has become more important than ever.

The *Guide to Country Risk* is a useful handbook for anyone wanting to establish a political risk analysis unit and provides remarkably detailed advice on specifics like political risk insurance and many interesting international case studies. The book also contains an extensive list of examples where many companies successfully dealt with political risk by using scenario-building exercises to develop alternative business plans.