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**INTERNATIONAL RISKS**

In today’s modern and globalized market, the competition in business is growing rapidly. In order to become more successful and achieve goals in business, the companies are required to make huge risks and decisions. Expansion of business abroad is a big risk and takes time and requires careful planning but it is worth taking since it can expand sales and production volume and assists to make your product worldwide brand.

It is obvious that expanding the business internationally causes risks in dealing with local culture, language, government regulations, etc. There are various and different risks that banks and companies could face during their operational activities. Comprising credit risk, economic risk, cultural risk, legal risks, foreign exchange risk and interest rate risk.

Credit Risk – the inability of the buyer to honor total payment to the seller for goods rendered on deadline day;

Economic Risk – unfavorable conditions in exporter or importer’s country which may influence negatively both parties in fulfilling their obligations like the difficulty in producing or shipping the goods;

Cultural Risk – inabilities of accepting cultural differences or languages barriers;

Legal Risk – potential financial loss from uncertainty in legal proceeding or legislation;

Interest Rate Risk – risk by interest paying asset like floating rate loan.

It is clear that it is better to pair off credit risk with sovereign risk and market risk with foreign exchange risk. The former occurs as a result of issuer’s failure to meet his contractual obligations to repay a debt. When the government will snub or be unable to pay its debts that owes to foreign bank, the business has likelihood of facing sovereign risk. Therefore in both types of risks, one counterparty defaults to perform its responsibility in contract agreements.[[1]](#footnote-2)

As regards market risk also called systematic risk, it is where losses arise due to changes in market prices or interest rates. Foreign exchange risk affects to investment’s value because of unexpected movements in exchange rates between different currencies. It is considered as one type of market risk, fluctuations of foreign currencies during the business which may result in overpaying by the importer or receiving less by exporter in terms of local currency.

Financial risk control is used by risk managers and takers as a support function for measuring and monitoring risks against its determined limits. Furthermore, it provides stakeholders further reports about production and distribution of risks as well as risk policies and procedures. On the other hand, risk takers aim to build economic value by discovering cost-effective opportunities which is worthy to get financial risks because they make high amount of investments. Risk takers should also have freedom to take decisions themselves. To conclude risk takers try to increase revenue while risk controllers pay their attention to maintain risks at lowest level. [[2]](#footnote-3)

Before entering to the international market, the company must find out risks and how to mitigate them:

\* The company should deal with the consumer with established track record.

\* Employing credit agency to reduce buyer’s credit risk.

\* Engage on more secured payment methods.

\* Respecting cultural differences.

\* Using the same currency in buying and selling.

\* Sending representatives into the target market in foreign state to deal with the goods or services.

It is clearer that international business is more risky and expensive than trading domestically, but choosing the right entry mode and exit strategy and identifying risks in doing business and best ways of mitigating them will bring huge fortunes to the company’s overseas market.

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1. Alan,M. (2008) “ Financial services”, Available.

2. George,K. ( 2005) “ Non bank financial services”, Available.

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1. www.etreed.org [↑](#footnote-ref-2)
2. www.aiu.edu [↑](#footnote-ref-3)